Innovative Industrial Properties (IIPR)

Updated November 8th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$280	**5 Year CAGR Estimate:**	13.9%	**Market Cap:**	$6.69 B
Fair Value Price:	$158	**5 Year Growth Estimate:**	25.0%	**Ex-Dividend Date:**	12/30/21
% Fair Value:	177%	**5 Year Valuation Multiple Estimate:**	-10.8%	**Dividend Payment Date[1]:**	01/15/22
Dividend Yield:	2.1%	**5 Year Price Target**	$483	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	28.2%[2]

Overview & Current Events

Innovative Industrial Properties, Inc. is a single-use "specialty REIT" that exclusively focuses on owning properties used for the cultivation and production of marijuana. Because the industry is in the midst of a legal transition, there are constraints on capital available to businesses engaged in the marijuana business. IIPR went public in a "loophole" time period. No other cannabis-related REITs have been approved for listing on the NYSE or the NASDAQ. Having the fortunate status as the only publicly traded marijuana REIT in the US has led to stunning returns and portfolio growth. The $6.69 billion REIT owns 76 properties in 19 states. Amid the cannabis boom over the past few years, as well as its exclusivity in terms of the listing, which gives the trust access to public markets, Innovate Industrial Properties remains the fastest-growing REIT in the world.

On November 3rd, 2021, Innovative Industrial announced its Q3 earnings for the period ending September 30th, 2021. For the quarter, revenues and normalized AFFO/share were $53.9 million and $1.74, an increase of 56.9%, and 33.6%, respectively. The company delivered another quarter of explosive growth, with another five acquisitions since the beginning of July and contractual rental escalations at certain properties. AFFO/share grew at a slower rate due to the issued shares that were offered to partially fund these purchases. As of November 3rd, 100% of IIPR's properties were leased with a weighted-average remaining lease term of approximately 16.7 years, similar to the previous quarter, which is once again highly impressive. With its tenants enjoying resilient marijuana demand amid growing consumption, IIPR collected 100% of its contractual rent due for Q3.

The company has consistently raised its quarterly dividend quarter-over-quarter over the past few quarters, richly rewarding its stockholders in line with its performance trajectory. The latest increase to a DPS of $1.50 represented a 7% increase compared to last quarter and a 28.2% compared to last year. While no financial guidance was provided, we have updated our FY2021 AAFO/share estimate from $6.50 to $6.60 based on the company's latest quarter and prudent acquisition assumptions.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	---	---	---	---	---	$(0.62)	$0.67	$1.34	$3.27	$5.00	***$6.60***	***20.14***
DPS	---	---	---	---	---	---	$0.55	$1.20	$2.83	$4.47	***$6.00***	***$14.93***
Shares[3]	---	---	---	---	---	1	3.4	7.3	10.7	19.27	***26.2***	***125***

Industrial Innovating properties has been snowballing, growing AFFO/share dramatically since the trust's IPO. Over the past three years, not a single quarter has seen less AFFO/share than the one before it, fueled by non-stop acquisitions. To capitalize on the growth of the cannabis sector, IIPR acquired 20 properties in 2020 alone. With the schedule-1 drug being decriminalized in one state after the other, we expect can see the current growth rates to be sustained in the medium term.

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1 Estimated dates based on past dividend dates.
2 IIP grows its DPS on a quarterly basis or semi-annual basis. YoY DPS growth is 28.2%. Its latest QoQ growth amounts to 7%.
3 Share count is in millions.

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In line with its AFFO growth, management has consistently raised the dividend sequentially amongst quarters. Payouts grew by an astonishing 58% in FY2020. We retain our AFFO/share and DPS medium-term CAGR at 25% and 20%, respectively, to be prudent. As we mentioned in previous reports, and proven in once again in Q3's results, these figures will likely be more attractive, considering the IIPR's acquisition spree. Still, IIPR has short trading history, and its acquisition-driven strategy may see availability headwinds in the future, hence our more reserved estimates.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	---	---	---	---	---	---	47.76	12.16	16.6	30.2	***42.4***	***24.0***
Avg. Yld.	---	---	---	---	---	---	3.4%	3.3%	2.8%	2.8%	***2.1%***	***3.1%***

IIPR's shares have surged since our last report, pushing the stock's valuation to 42.4 times its FY2021 expected AFFOs. We believe that the stock has run ahead of itself at its current levels, despite its impressive growth. We retain our fair valuation multiple at 24, expecting a natural compression in the medium-term amid a natural growth slowdown. Shares are currently yielding around 2.1%, which is quite decent given that the REIT is undergoing such a rapid growth phase.

Safety, Quality, Competitive Advantage, & Recession Resiliency

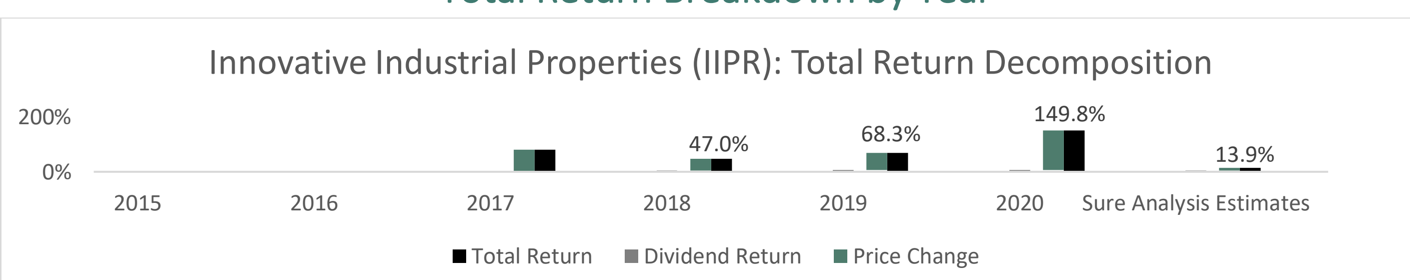
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	82%	90%	87%	89%	91%	***74%***

The company's seemingly high payout ratio is non-meaningful as AFFOs proliferate and only reflect this year's cash flows. Being the only listed pure-cannabis REIT, the company has a massive moat. With access to public markets, management can issue debt and equity much cheaper than its few private competitors. IIPR can build more durable and sustainable relationships with tenants as it possesses higher credibility and transparency. With more states legalizing weed over time, the company is subject to a fantastic medium/long-term expansion trend. Despite the headwinds COVID-19 caused in many industries, IIPR was barely affected, continuing its proven acquisition-based growth model. Because of how new the cannabis sector is, its recession resiliency is untested to the passage of time and remains to be seen. Still, its average lease duration of 16.7 years is unparalleled to the industry. Not even the highest-quality, most mature REITs in the world get to enjoy such a lengthy lease profile, which adds to the dividend's safety.

Final Thoughts & Recommendation

Innovative Industrial Properties is a genuinely unique investment case. Instead of guessing which cannabis-producing stock will be a long-term winner, investors can profit off of what every producer needs, which is specialized property. This way, the sector's growth can be taken advantage of while benefiting from the consistent rental cash flows from IIPR's facilities. We expect the stock to keep delivering double-digit returns of around 13.9% over the next few years, as valuation headwinds are likely to offset the REIT's growing financials. Shares earn a buy rating, but with a thinner margin of safety than previously.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	---	---	$0.32	$6.42	$14.79	$44.67	$116.90
Gross Profit	---	---	---	---	$0.23	$6.30	$14.34	$43.35	$111.94
Gross Margin	---	---	---	---	72.9%	98.2%	97.0%	97.1%	95.7%
SG&A Exp.	---	---	---	---	$0.83	$5.50	$6.38	$9.82	$14.18
D&A Exp.	---	---	---	---	$0.03	$0.92	$2.63	$8.60	$28.02
Operating Profit	---	---	---	---	-$0.69	-$0.11	$5.34	$24.94	$69.74
Operating Margin	---	---	---	---	-213.4%	-1.7%	36.1%	55.8%	59.7%
Net Profit	---	---	---	---	-$4.39	-$0.07	$6.99	$23.48	$65.73
Net Margin	---	---	---	---	-1368.2%	-1.1%	47.2%	52.6%	56.2%
Free Cash Flow	---	---	---	---	-$28.34	$5.02	$15.69	$44.93	$110.81
Income Tax	---	---	---	---	$0.32	$6.42	$14.79	$44.67	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	$63.33	$80.03	$281.47	$745.86	$1,768
Cash & Equivalents	---	---	---	---	$33.00	$11.76	$13.05	$82.24	$126.01
Total Liabilities	---	---	---	---	$2.89	$6.48	$17.17	$197.85	$243.11
Accounts Payable	---	---	---	---	$0.07	$1.08	$4.40	$28.39	$41.14
Long-Term Debt	---	---	---	---	$0.00	$0.00	$0.00	$134.65	$136.69
Shareholder's Equity	---	---	---	---	$60.44	$59.54	$250.28	$534.00	$1,511
D/E Ratio	---	---	---	---	0.00	0.00	0.00	0.25	0.09

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	-0.1%	3.9%	4.6%	5.2%
Return on Equity	---	---	---	---	-14.5%	-0.1%	4.5%	6.0%	6.4%
ROIC	---	---	---	---	---	-0.1%	4.1%	5.0%	5.6%
Shares Out.	---	---	---	---	0.96	3.38	7.29	10.68	19.56
Revenue/Share	---	---	---	---	$0.33	$1.90	$2.03	$4.18	$5.98
FCF/Share	---	---	---	---	-$29.43	$1.49	$2.15	$4.21	$5.67

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.