



Monmouth Real Estate Investment Corp. (MNR)

Updated November 20th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$20.85	5 Year CAGR Estimate:	4.5%	Market Cap:	\$2.05 B
Fair Value Price:	\$19.11	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/12/2021
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	12/15/2021
Dividend Yield:	3.5%	5 Year Price Target	\$22.15	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	5.9%

Overview & Current Events

Monmouth Real Estate Investment Corporation specializes in the ownership of well-located, modern, single-tenant, industrial buildings leased primarily to investment-grade tenants or their subsidiaries under long-term net leases. The trust owns 122 properties with a total rentable square footage of 24.9 million, located in 32 states. Monmouth generates around \$170 million in annual rental revenues and is headquartered in Holmdel, New Jersey. The trust was founded in 1968 and is, therefore, one of the oldest public equity REITs in the world.

On November 5th, 2021, Monmouth entered into a definitive merger agreement with Industrial Logistics Properties Trust (ILPT) under which ILPT will acquire all of the outstanding shares of the company for \$21.00 per share in an all-cash transaction. It is expected to close in the first half of 2022, subject to approval by Monmouth's shareholders.

On August 12th, 2021, Monmouth Real Estate Investment Corp. reported its FQ4 and full-year results for the period ending September 30th, 2021. Rental revenues for the quarter came in at \$39.9 million, 10.5% higher year-over-year, primarily boosted by an increased amount of properties over the past year as a result of acquisitions. AFFO grew to \$19.4 million, 7.1% higher vs. FQ4-2020, as a result of higher expenses and only marginally higher dividend income. AFFO/share was \$0.20, a cent higher than the prior-year period due to the additional shares issued to fund the trust's acquisitions, offsetting most AFFO growth. During the year, Monmouth acquired 1.6 million square feet situated on over 316 acres representing an abundant land to building ratio of 8.8 times consisting of high-quality industrial space for \$258.4 million. They generate \$15.2 million in annual rental revenue, comprising four properties leased long-term to investment-grade tenants with lease terms ranging from 15 to 20 years and a weighted average lease term of 17.1 years. At the end of the quarter, occupancy stood at an exceptional 99.7%, increasing 30 basis points over the prior year. While financial guidance for next year was not provided, we forecast FY2022 AAFO/share of \$0.91.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/shr¹	\$0.66	\$0.46	\$0.52	\$0.57	\$0.70	\$0.76	\$0.87	\$0.85	\$0.78	\$0.78	\$0.91	\$1.05
DPS	\$0.60	\$0.60	\$0.60	\$0.61	\$0.64	\$0.65	\$0.68	\$0.68	\$0.68	\$0.71	\$0.72	\$0.79
Shares²	39.7	42.3	49.8	59.1	65.5	72.1	78.6	93.4	98.1	98.4	98.6	120.0

Monmouth has grown its portfolio consistently over the past decade, though AFFO/share features a 10-year CAGR of just 1.9%, primarily due to expensive share issuances to fund its acquisitions. Future growth catalysts include higher annualized average base rent per occupied square foot (4% higher YoY in FQ4) and accretive acquisitions from the trust's pipeline. At the end of the quarter, the REIT's pipeline had six new build-to-suit properties containing 1.4 million square feet, all of which are to be leased to investment-grade tenants. Considering Monmouth's ongoing performance, we forecast AFFO/share CAGR of 3% through 2026. In terms of its dividend, Monmouth has not cut it since 1991 but has increased it rarely. We forecast a medium-term DPS CAGR of 2%. However note that hikes may not occur on an annual basis.

¹ The trust believes that Adjusted FFO (FFO excluding stock based comp., and other minor items) better reflects its performance.

² Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	16.9	19.6	19.5	17.0	17.1	21.1	18.0	16.7	18.7	24.2	22.9	21.0
Avg. Yld.	5.4%	6.7%	5.9%	6.3%	5.3%	4.1%	4.4%	4.8%	4.7%	4.7%	3.5%	3.6%

Monmouth's P/AFFO multiple has historically hovered around 19, reflecting the trust's rock-solid cash flow generation, which investors tend to reward with a slight premium. Over the past year, however, the stock has reached new highs, resulting in a notable valuation expansion. Consequently, the stock's yield has also been compressed to a 30+ year low of 3.5%. Considering the trust's rather limited growth estimates, we believe that a multiple compression closer to its historical average is well-justified. We have set the stock's fair P/AFFO at 21, as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

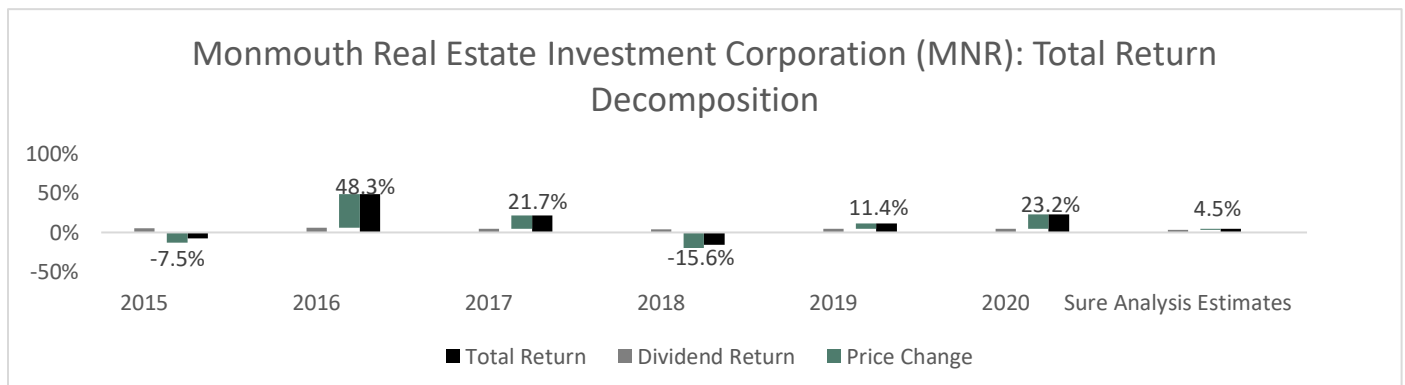
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	91%	130%	115%	107%	91%	86%	78%	80%	87%	91%	79%	75%

While Monmouth's payout ratio has seemingly been rather uncomfortable over the years, we consider it safe. This is due to the trust only thoughtfully increasing its DPS and due to no cuts occurring for more than 30 years, including multiple periods of adverse economic conditions of all types. The trust enjoys several qualities, including a weighted average lease term of 7.0 years that provides great cash flow visibility, dream-like occupancy levels, and low average interest rates on its debt which keep declining (3.86% vs. 3.98% in FQ4-2020). Further, 58% of the trust's total rental space is leased to FedEx and its subsidiaries. FedEx is a global behemoth providing fantastic creditworthiness to Monmouth, though at such a high percentage, a lack of diversification issue could be raised. Amazon also accounts for ~6% of total rental revenues. Monmouth's competitive advantages include its built-to-fit properties catering to the special demand of its tenants, as well as management's extensive experience, running one of the oldest REITs in the world. Monmouth's decade-long track record of operations and DPS payouts speaks volumes to its recession resiliency.

Final Thoughts & Recommendation

Monmouth's features some fantastic qualities that have led to consistent shareholder value creation throughout the decades. The trust's contracts should provide excellent cash flow visibility ahead, while its acquisition pipeline should keep growing its rental revenues. While ILPT may see value in its proposed acquisition possible due to the operating efficiencies that could be unlocked, we forecast annualized returns of just 4.5% due to any potential valuation headwinds ahead. That is if the agreement falls through since Monmouth shareholders should expect to give up their shares for \$21 each in the coming months. With much of the potential upside already priced in, we rate shares a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	54	55	66	78	98	116	136	155	168	183
Gross Profit	45	46	55	66	80	96	115	131	141	154
Gross Margin	83.5%	83.3%	82.8%	84.0%	82.0%	82.7%	84.7%	84.7%	83.9%	84.2%
SG&A Exp.	5	5	6	6	8	8	9	9	9	9
D&A Exp.	14	16	18	23	27	33	40	47	51	56
Operating Profit	27	26	31	37	46	57	68	76	82	90
Operating Margin	50.2%	47.4%	47.2%	48.0%	47.2%	48.9%	49.8%	49.2%	48.8%	49.2%
Net Profit	19	21	20	26	32	40	56	30	(22)	78
Net Margin	34.9%	38.7%	30.1%	32.8%	33.2%	34.6%	41.3%	19.2%	-13.2%	42.6%
Free Cash Flow	22	13	15	28	33	69	76	86	93	77

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	575	617	744	916	1,223	1,443	1,718	1,872	1,940	2,216
Cash & Equivalents	25	12	20	12	96	10	9	20	24	47
Accounts Receivable	1	1	1	1	1	2	1	1	5	5
Goodwill & Int. Ass.	8	7	6	6	6	10	15	15	17	21
Total Liabilities	259	281	323	470	626	730	920	861	902	1,121
Long-Term Debt	252	272	313	459	558	711	898	840	875	1,082
Shareholder's Equity	205	225	310	335	405	467	511	663	566	545
D/E Ratio	0.80	0.81	0.74	1.03	0.93	1.00	1.13	0.83	0.84	0.99

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.6%	3.6%	2.9%	3.1%	3.0%	3.0%	3.5%	1.7%	-1.2%	3.8%
Return on Equity	9.7%	10.0%	7.4%	7.9%	8.8%	9.2%	11.5%	5.1%	-3.6%	14.1%
ROIC	4.6%	3.6%	3.0%	3.1%	3.2%	3.1%	3.6%	1.7%	-1.2%	3.8%
Shares Out.	39.7	42.3	49.8	59.1	65.5	72.1	78.6	93.4	98.1	98.4
Revenue/Share	1.35	1.30	1.32	1.32	1.49	1.61	1.72	1.66	1.71	1.86
FCF/Share	0.56	0.32	0.30	0.46	0.51	0.95	0.96	0.92	0.95	0.78

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

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