One Liberty Properties (OLP)

Updated November 13th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$704 M
Fair Value Price:	$25	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	12/16/2021
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	01/07/2022
Dividend Yield:	5.3%	**5 Year Price Target:**	$29	**Years of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	-

Overview & Current Events

One Liberty Properties is a self-administered, self-managed real estate investment that that acquires, owns, and manages a diversified portfolio of retail, industrial, office and other properties. Almost all of One Liberty's leases are net leases, where the tenant is responsible for real estate taxes, insurance, and ordinary maintenance and repairs. One Liberty was incorporated in 1982 and became a public trust in 1983. One Liberty trades on the NYSE under the ticker symbol OLP and is headquartered in Great Neck, New York. OLP has a market capitalization of $704 million.

One Liberty's current portfolio comprises 122 properties in 30 states, totaling 10.7 million square feet. The portfolio is currently at 98.2% occupancy. The trust's contractual rental income currently sits at $66.0 million. Industrial properties account for 55.1% of contractual rental income, with retail at 18.1%, restaurants at 5.3%, health & fitness at 4.7%, theaters at 2.9%, and others at 2.4%.

One Liberty released third quarter results on November 4th. The Trust reported rental income of $20.3 million, slightly below the $21.1 million generated in the same prior year period, due to the impact of property dispositions. Net income of $0.28 was much lower than the prior year's $0.67 per diluted share. The net income for the 2020 quarter contained $0.50 in gains per share due to the sale of a property. Adjusted funds from operations was $10.1 million, a minor increase compared to $10.0 million. Adjusted FFO per share fell one penny to $0.48, as growth on a per share basis was offset due to the higher share count.

At quarter end, OLP had $13.7 million of cash and cash equivalents, total assets of $752.0 million and total debt of $406.4 million. One Liberty's liquidity was roughly $105.2 million, including $93.3 million available under the credit facility.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	$1.64	$1.65	$1.75	$1.84	$1.92	$1.99	$2.09	$2.13	$1.98	$1.90	***$1.90***	***$2.20***
DPS	$1.32	$1.34	$1.42	$1.50	$1.58	$1.66	$1.74	$1.80	$1.80	$1.80	***$1.80***	***$1.89***
Shares[2]	13.9	14.5	15.1	15.7	16.1	16.9	18.1	18.6	19.1	19.6	***20.2***	***24.0***

One Liberty Properties has grown fairly consistently over the long-term, but in recent years that growth has faltered as AFFO has fallen since 2018. Additionally, calculating historic growth culminating in the year most affected by the COVID pandemic can potentially be misleading. However, OLP has grown their AFFO on average by 1.6% and -0.2% over the last nine and five years, respectively. Their share count has also grown fairly consistently at roughly 3.9% over the last decade. Given this, we estimate that One Liberty can grow adjusted FFO from here on out at roughly 3.0% annually.

The trust is focusing on reducing their retail exposure and increasing their industrial exposure, which should pay off with the long-term trends in e-commerce and the demand for warehouses and distribution facilities increasing. Year-over-year, since 2016, OLP has reduced the percent of contractual rental income exposed to retail properties and increased

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[1] Estimate
[2] In millions

the exposure to industrial properties. Additionally, a portfolio of industrial properties is likely to be valued at a higher multiple than a portfolio of retail properties, especially restaurants and theatres.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	9.5	11.3	12.7	11.8	11.9	11.7	11.6	12.0	14.2	10.0	***17.7***	***13.0***
Avg. Yld.	8.2%	7.1%	6.2%	6.7%	6.7%	7.0%	7.0%	7.0%	6.4%	10.0%	***5.3%***	***6.6%***

The trust's P/AFFO of 17.7 is trending fairly high given its nine- and five-year historic average valuations of 11.7 and 11.9 times AFFO. With an increasing portfolio of industrial properties, the multiple is likely to expand, but we believe the trust is overvalued right here. We see fair value at 13.0 times AFFO, just slightly above its historic valuation average. This, in turn, should lead to losses of roughly 6.0% due to valuation headwinds.

Safety, Quality, Competitive Advantage, & Recession Resiliency

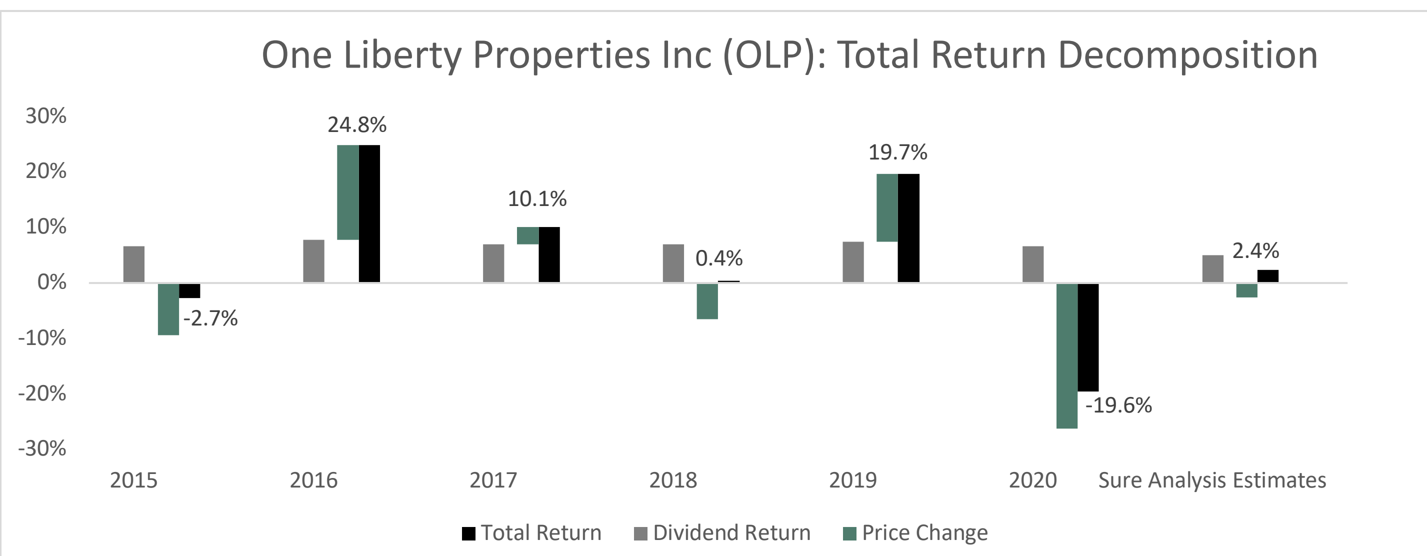
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	80%	81%	81%	82%	82%	83%	83%	85%	91%	95%	***95%***	***86%***

Despite choppy AFFO results year-over-year, One Liberty has maintained a fairly covered dividend payout, until 2019 where the coverage became somewhat under threat with a ratio higher than 90%. The payout ratio today remains above 90%, so it may be under threat, but if the trust continues executing successfully on their industrial property strategy, we see the payout ratio moderating in the future. The trust's competitive advantage lies in its dedicated management with insider ownership of 21.5%, which aligns management with shareholders and, according to the CEO, "dramatically differentiates" the trust from its competitors.

Final Thoughts & Recommendation

One Liberty Properties has struggled to grow adjusted funds from operations in recent years, but it has been successfully pivoting its portfolio from retail-heavy to industrial-heavy which has also caused an increase in the valuation, to a point where we believe shares are 36% overvalued. We estimate the trust can grow AFFO by roughly 3% annually, combined with a strong 5.3% dividend yield, offset by heavy valuation contraction. With moderate expected total annual returns of 2.4%, we rate shares a Hold today.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	41	44	51	60	66	71	76	79	85	82
Gross Profit	38	41	47	56	59	61	65	68	71	68
Gross Margin	93.5%	93.3%	93.1%	92.2%	90.3%	86.9%	85.5%	85.3%	83.4%	83.4%
SG&A Exp.	7	7	8	9	10	11	11	12	12	14
D&A Exp.	9	10	12	14	16	17	20	22	21	22
Operating Profit	22	24	27	32	33	32	32	31	36	31
Op. Margin	54.9%	53.7%	53.9%	52.6%	50.4%	45.7%	42.3%	39.3%	42.3%	38.2%
Net Profit	14	32	18	22	21	24	24	21	18	27
Net Margin	33.6%	73.8%	35.1%	36.6%	31.2%	34.6%	31.8%	26.1%	21.3%	33.5%
Free Cash Flow	21	22	27	32	34	30	44	43	36	35

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	453	481	572	590	646	733	743	781	775	776
Cash & Equivalents	13	15	17	20	13	17	14	15	11	13
Goodwill & Int.	11	16	26	27	29	33	31	27	26	25
Total Liabilities	234	243	322	335	384	442	444	482	483	484
Long-Term Debt	218	226	301	305	349	404	402	448	447	442
Total Equity	218	237	249	254	260	290	297	297	291	291
D/E Ratio	1.00	0.95	1.21	1.20	1.34	1.39	1.35	1.51	1.54	1.52

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.1%	6.9%	3.4%	3.8%	3.3%	3.5%	3.3%	2.7%	2.3%	3.5%
Return on Equity	6.9%	14.2%	7.4%	8.8%	8.0%	8.9%	8.2%	7.0%	6.1%	9.4%
ROIC	3.2%	7.2%	3.5%	4.0%	3.5%	3.7%	3.5%	2.9%	2.4%	3.7%
Shares Out.	13.9	14.5	15.1	15.7	16.1	16.9	18.1	18.6	19.1	19.6
Revenue/Share	2.95	3.01	3.39	3.86	4.09	4.18	4.21	4.26	4.43	4.18
FCF/Share	1.55	1.51	1.78	2.03	2.14	1.78	2.46	2.29	1.90	1.79

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