



STORE Capital Corp. (STOR)

Updated December 1st, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	6.6%	Market Cap:	\$9.18B
Fair Value Price:	\$30	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/30/21 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	01/15/21
Dividend Yield:	4.7%	5 Year Price Target	\$36	Years Of Dividend Growth:	8
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	6.9%

Overview & Current Events

Founded in 2011 and public since 2014, STORE Capital Corp is a real estate investment trust that acquires and manages single tenant operation real estate, or STORE, properties in the US. STORE Capital primarily leases facilities to middle-market and large businesses through long-term, triple-net leases. STORE Capital had 538 customers at end of Q3 2021 and the ten largest customers made up ~18.7% of base rent. The company operates in 49 states and owned 2,788 properties at end of Q3 2021. Service sector customers make up 65.8% of rent and 2,265 properties, retail makes up 15.2% of rent and 240 properties, and manufacturing makes up 19.0% of rent and 283 properties. Approximately 33.9% of rent comes Texas, California, Illinois, Florida, and Ohio. The REIT had total revenue of \$694.3M in 2020.

STORE Capital reported solid Q3 2021 results on November 4, 2021. Total revenue rose 13.6% to \$184.1M from \$163.3M and net income surged to \$75.9M from \$54.6M. Diluted AFFO/S increased to \$0.52 from \$0.46. The REIT invested \$411.7M in 75 properties and added 16 new customers in the quarter. The REIT sold 82 properties. The total real estate portfolio was worth ~\$10.3B at end of Q3 with about 94% in commercial leases and 6% in mortgage loans and financings. The average lease has ~13.5 years remaining with only 3.5% of leases expiring in the next five years. STORE Capital raised guidance to AFFO/S to \$1.98 - \$2.00 in 2021, and \$2.15 - \$2.20 in 2022.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/S	---	---	---	\$1.41	\$1.50	\$1.65	\$1.71	\$1.84	\$1.98	\$1.83	\$1.99	\$2.42
DPS	---	---	---	\$0.11	\$1.04	\$1.12	\$1.20	\$1.28	\$1.34	\$1.42	\$1.54	\$1.97
Shares²	---	---	---	115	140	161	193	221	244	266	287	422

STORE Capital's AFFO/share growth has been strong since coming public as it has gone from \$1.41 in 2014 to \$1.98 in 2019 but took a downturn in 2020. This was largely a result of the negative effect of COVID-19 on many of the REIT's clients. Many REITs suffered and had lower rent collection during the pandemic due to state and local government restrictions and business closures impacting their clients. Many retailers, restaurants, childcare facilities, and other businesses deferred rent, scaled back operations, and in some cases permanently closed their doors. After 2020, we are expecting AFFO/S to grow at about 4% annually on average out to 2026, which is slightly lower than the trailing average since 2014. We account for the impact of COVID-19 on REITs and their customers and rent collection. STORE Capital has grown through acquisition and then leasing to medium-to-larger sized customers with rent escalators and senior lease positioning. This has worked well for the company since its IPO in 2014. However, the law of large numbers means that growth will slow. Furthermore, the rising share count will likely keep a lid on AFFO/S growth.

The dividend has grown at rapid clip since 2014 but has slowed in the past two years as the payout ratio has risen but it is still reasonably conservative for a REIT. The rising share count has also increased the cash flow requirement for the dividend. We expect the dividend to grow at about 5% annually on average out to 2026.

¹ Estimated based on prior years. The REIT has not yet announced the dividend for the next quarter.

² Share count in millions at annual report date.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	---	---	---	15.3	15.5	15.0	15.2	15.4	18.8	18.6	16.6	15.0
Avg. Yld.	---	---	---	0.5%	4.5%	4.5%	4.6%	4.5%	3.7%	4.2%	4.7%	5.4%

STORE Capital's stock price is down since our last report. Our fair value multiple for the long haul is 15X, which is near the trailing 10-year average. The REIT is performing better after a difficult 2020 that was adversely affected by COVID-19. We have pegged our AFFO/S estimate at the mid-point of updated guidance. Our fair value estimate is now \$30. Our 5-year price target is now \$36.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Payout	---	---	---	8%	69%	68%	70%	70%	69%	78%	77%	81%

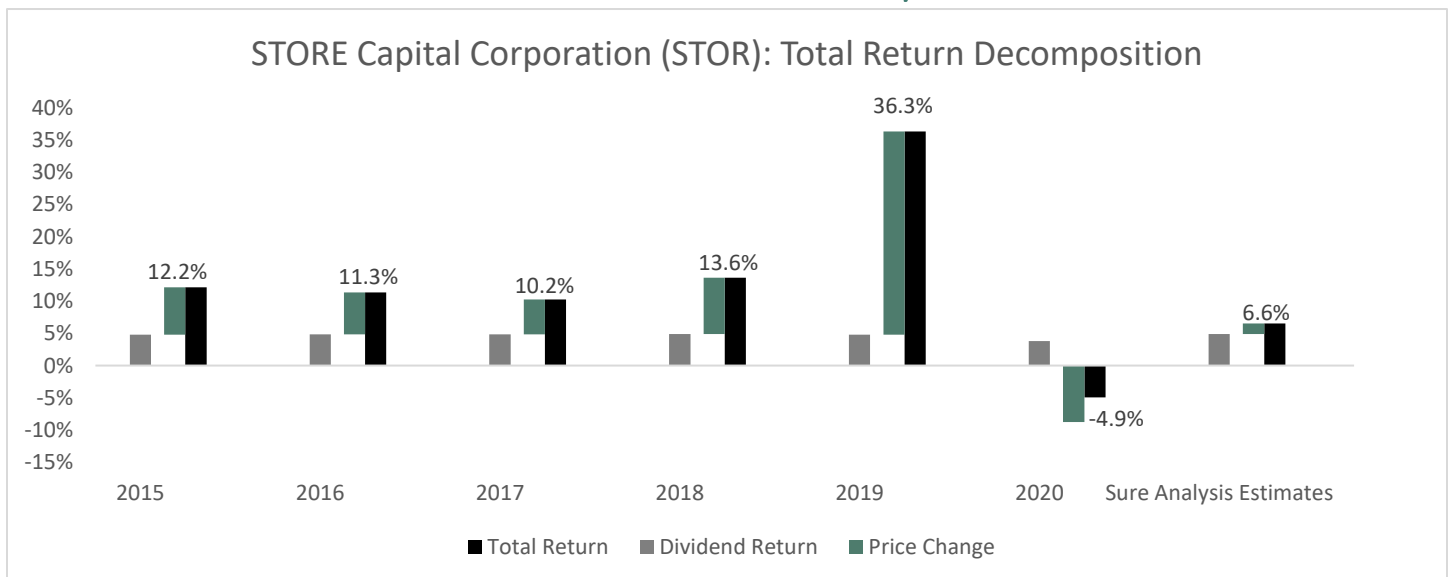
As a net lease REIT, STORE Capital is a defensive stock because its leases have a senior position to other obligations, are long-term, and have built in regular rent escalators. Additionally, the nature of triple net leases is such that the tenant takes care of virtually all the operating costs. Another factor contributing to STORE's safety is the fact that it has achieved tremendous diversification with over 500 customers, over 2,700 properties in 49 states, and 99.4% occupancy. STORE announced that it has become among the very few REITs (and the only net lease REIT) to have the ability to issue AAA-rated notes, an affirmation of the safety of the diverse portfolio.

The balance sheet is also in decent shape with \$37.0M in cash and equivalents and \$1,411.2M in unsecured notes and term loans, \$2,517.1M in non-recourse debt obligations. STORE Capital has a BBB credit rating.

Final Thoughts & Recommendation

At present, we are forecasting 6.6% total annualized return over the next five years. STORE Capital had a difficult 2020 due to COVID-19. But rental collections improved to 93% in Q1 2021, 96% in Q2 2021, and were at pre-pandemic levels at end of Q3 2021. Rising vaccine rates and an improving US economy means that many of the REIT's customers are returning to more normal operations. However, the REIT is trading above our fair value estimate and investors should wait for a better entry point. At the current stock price, we rate STORE Capital a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	N/A	N/A	109	190	285	376	453	541	666	694
SG&A Exp.	N/A	N/A	14	19	28	35	41	46	54	50
D&A Exp.	N/A	N/A	31	57	89	120	150	182	222	243
Operating Profit	N/A	N/A	64	113	167	218	257	309	379	380
Operating Margin	N/A	N/A	59.0%	59.6%	58.5%	57.9%	56.7%	57.1%	56.9%	54.7%
Net Profit	N/A	N/A	26	48	84	123	162	217	285	213
Net Margin	N/A	N/A	24.2%	25.3%	29.4%	32.8%	35.8%	40.1%	42.8%	30.6%
Free Cash Flow	N/A	N/A	55	103	187	246	309	392	458	432
Income Tax	N/A	N/A	0	0	0	0	0	1	1	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	N/A	N/A	1786	2883	3911	4942	5900	7114	8,297	9,004
Cash & Equivalents	N/A	N/A	62	136	67	54	43	28	100	166
Total Liabilities	N/A	N/A	1012	1300	1852	2458	2729	3250	3,811	3,989
Long-Term Debt	N/A	N/A	992	1253	1770	2352	2597	3060	3,591	3,722
Shareholder's Equity	N/A	N/A	774	1583	2060	2483	3171	3864	4,485	5,016
D/E Ratio	N/A	N/A	1.28	0.79	0.86	0.95	0.82	0.79	0.80	0.74

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	N/A	N/A	1.9%	2.1%	2.5%	2.8%	3.0%	3.3%	3.7%	2.5%
Return on Equity	N/A	N/A	4.1%	4.1%	4.6%	5.4%	5.7%	6.2%	6.8%	4.5%
ROIC	N/A	N/A	1.9%	2.1%	2.5%	2.8%	3.1%	3.4%	3.8%	2.5%
Shares Out.	N/A	N/A	N/A	78	122	149	179	205	220	266
Revenue/Share	N/A	N/A	0.98	2.43	2.33	2.52	2.53	2.64	2.89	2.75
FCF/Share	N/A	N/A	0.50	1.31	1.53	1.65	1.73	1.91	1.99	1.71

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

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