Essential Properties Realty Trust Inc (EPRT)

Updated February 23rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$3.1 B
Fair Value Price:	$27	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	03/29/2021
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Dividend Payment Date[2]:**	04/15/2022
Dividend Yield:	4.2%	**5 Year Price Target:**	$38	**Years of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.2%

Overview & Current Events

Essential Properties Realty Trust Inc is a real estate investment trust which acquires, owns, and manages single-tenant properties that are leased on a long-term basis to middle-market companies who operate service-oriented or experience-based businesses. Such businesses include restaurants, car washes, automotive services, medical services, convenience stores, entertainment, health & fitness, and early childhood education. The trust owns or has an interest in 1,451 properties spanning 13.5 million square footage. There are 311 diverse tenants across 16 industries in 46 states. The diversified REIT trades on the NYSE under the ticker symbol EPRT. The Trust has a market capitalization of $3.1 billion and is headquartered in Princeton, New Jersey.

Essential Properties released fourth quarter and full year 2021 results on February 16th. In the fourth quarter, funds from operations per share increased 56% to $0.39. Adjusted FFO rose 37% to $0.37 per share. For the full year, FFO increased by 28% to $1.38 in 2021. Adjusted FFO was 21% higher year-over-year, reaching $1.34 per share. At the end of the year, weighted average occupancy stood at 99.9%. The properties are under a weighted average lease terms of 14.0 years with a weighted average rent coverage ratio of 3.7x.

The trust raised $276 million in 2021 through the ATM program. Diluted weighted-average shares outstanding grew from 96 million a year ago to 117 million in the recent quarter, a significant 22% increase in share count.

Leadership has provided fiscal 2022 guidance and expects 2022 AFFO of $1.47 to $1.51.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	---	---	---	---	---	---	$0.78	$1.14	$1.11	$1.34	***$1.49***	***$2.09***
DPS	---	---	---	---	---	---	$0.43	$0.88	$0.93	$0.98	***$1.04***	***$1.33***
Shares[3]	---	---	---	---	---	---	61.8	75.3	96.2	117.5	***120.0***	***140.0***

EPRT was formed in mid-2018, so our results only go back so far. Considering that 2018 data only spans June 25th to December 31st, year-over-year comparisons can only truly begin with year 2019, therefore there is little data from which to base future expectations off.

Based on the data we do possess; Essential Properties grew their adjusted funds from operations by 20% and 8% on average over the last three and two years. Keep in mind that the 3-year average growth rate is from 2018-2020, where 2018 was a half year, so results are likely skewed. We estimate the trust can grow AFFO by roughly 7% annualized going forward. The trust believes they can achieve growth through further sale-leaseback transactions with middle-market companies. So far, 85% of sale-leasebacks are internally-originated, and the trust has on average over the last two years invested roughly $175 million per quarter into growing the business. The trust also believes their balance sheet is unstretched, allowing them to fund external growth opportunities all the while maintaining their conservative leverage profile. The trust has $316 million in available liquidity and no debt maturities until 2023. We see further share issuance in the future as this real estate trust appears to just be getting started, however this capital should go into growing the

[1] Estimate
[2] Estimate
[3] In thousands

portfolio. According to leadership, EPRT has the highest 2022 forecasted AFFO per share growth of around 11% to 13% in its particular industry.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	---	---	---	---	---	17.8	18.3	16.5	19.9	***16.6***	***18.0***
Avg. Yld.	---	---	---	---	---	---	3.1%	3.4%	5.3%	3.6%	***4.2%***	***3.5%***

Essential Properties has traded at a price-to-adjusted funds from operations ratio of 18.2 on average since inception in 2018. Today shares are trading at 16.6 times estimated 2022 AFFO, while we believe fair value is closer to 18.0 times AFFO. This increase in valuation could result in gains of 1.7% per year on average over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	55%	77%	84%	73%	***70%***	***64%***

The payout ratio for EPRT is calculated as dividends per share divided by AFFO per share. The payout ratio has been healthy since the inception of the trust, and we see this as continuing. The yield is not as astronomical as many REITs with higher payout ratios flaunt, as the trust is still in its growth phase.

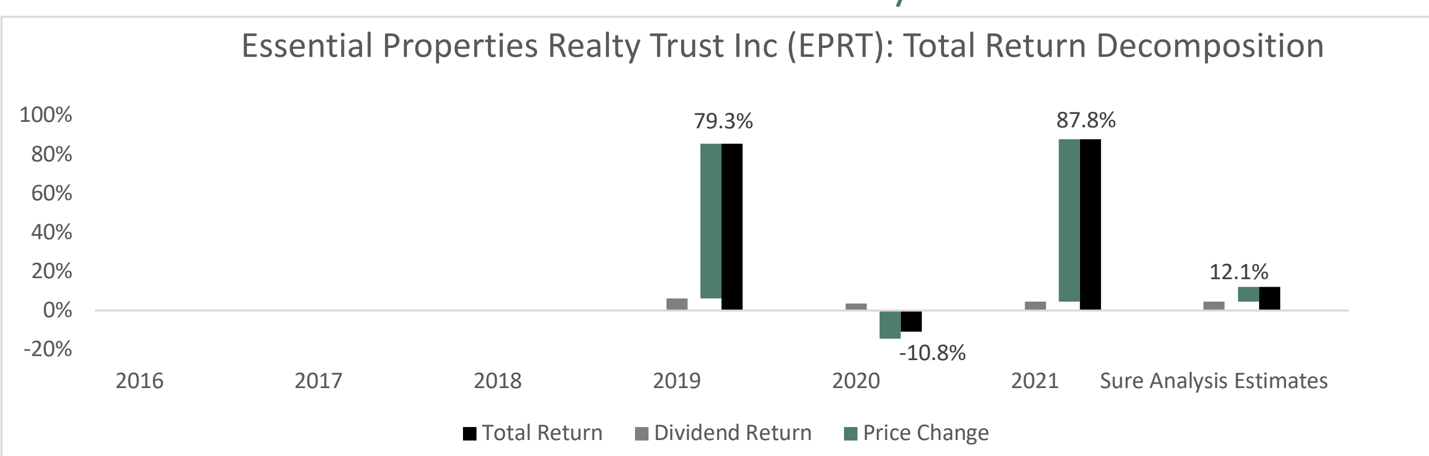
The Essential Properties trust only began operating a few years ago, and thus we have no information dating back to the great financial crisis, but we would anticipate a large number of bankruptcies from so many diverse service-oriented businesses. However, the trust made it through the COVID-19 pandemic practically unscathed on an AFFO basis (down 3% from 2019 to 2020), despite share count rising massively from the onset of the pandemic.

A competitive advantage of EPRT is their focus on leasing to service-oriented businesses, and in doing so, they have tenants that are well-positioned to withstand competition from e-commerce business, which in turn increases the stability and predictability of the Trust's rental revenue.

Final Thoughts & Recommendation

Essential Properties Realty is a relatively new REIT and has strong expected AFFO growth compared to peers over the next two years. The Trust appears to be a budding dividend growth REIT as they have raised it a couple times since inception. We believe shares are trading below fair value, at 92% of our estimated fair value. The trust's annualized expected returns come in at 12.1% in the near term, and we rate shares a Buy.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue						54	96	139	164	230
Gross Profit						53	94	136	160	224
Gross Margin						97.2%	97.9%	97.8%	97.6%	97.5%
SG&A Exp.						9	14	22	24	24
D&A Exp.						20	31	43	59	69
Operating Profit						25	49	72	75	131
Op. Margin						45.2%	51.1%	51.5%	46.0%	57.0%
Net Profit						6	16	42	42	96
Net Margin						11.6%	16.2%	30.0%	25.8%	41.6%
Free Cash Flow						22	46	89	99	167
Income Tax						0	0	0	0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets					466	942	1,381	1,975	2,489	3,299
Cash & Equivalents					2	7	4	8	27	60
Accts. Recv.					1	5	14	42	63	84
Goodwill					56	62	66	79	80	88
Total Liabilities					292	761	570	773	907	1,255
Long-Term Debt						742	540	727	815	1,166
Total Equity					175	181	562	1,194	1,575	2,037
LTD/E Ratio						4.09	0.96	0.61	0.52	0.57

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets							1.3%	2.5%	1.9%	3.3%
Return on Equity						3.5%	4.2%	4.8%	3.1%	5.3%
ROIC							1.4%	2.6%	2.0%	3.4%
Shares Out.							61.8	75.3	96.2	117.5
Revenue/Share						1.33	2.20	1.85	1.70	1.96
FCF/Share						0.55	1.05	1.18	1.03	1.43

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