



Gladstone Land Corporation (LAND)

Updated February 27th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	-1.7%	Market Cap:	\$1.1 B
Fair Value Price:	\$18	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	03/22/22
% Fair Value:	171%	5 Year Valuation Multiple Estimate:	-10.1%	Dividend Payment Date:	03/31/22
Dividend Yield:	1.7%	5 Year Price Target	\$25	Years Of Dividend Growth:	8
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	0.2%

Overview & Current Events

Gladstone Land Corporation is a real estate investment trust, or REIT, that specializes in the owning and operating of farmland in the U.S. The trust owns about 160 farms, comprising about 110,000 acres of farmable land. Gladstone's business is made up of three different options available to farmers, all of which are done on a triple-net basis. The trust offers long-term sale leaseback transactions, traditional leases of farmland, and outright purchases of farm properties. Gladstone's portfolio has an appraised value of more than \$1.3 billion, and the stock trades with a market capitalization of \$1.1 billion. The trust went public in early 2013 after having been founded in 1997.

Gladstone reported fourth quarter and full-year results on February 22nd, 2022, and results were ahead of expectations on both the top and bottom lines. The trust reported adjusted funds-from-operations, or AFFO, of 20 cents in Q4. That was two cents better than expected and capped a very strong year of record earnings. In addition, revenue was up 16% to \$22.8 million, which was more than \$2 million ahead of expectations. Operating revenue of \$22.8 million was up from \$19.6 million in the prior quarter, and Gladstone produced very strong operating cash flows of \$12.02 million. That was more than triple the third quarter of 2021, which came in with just \$3.39 million.

Gladstone invested a net of \$1.32 billion in Q4, up from \$1.17 billion in Q3. Its occupancy rate remains at a perfect 100% as of the end of the year. Net asset value per-share ended the quarter at \$14.31, up from \$13.80.

We forecast another year of record earnings this year, and our initial expectation for FFO is 79 cents per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	\$0.57	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.57	\$0.66	\$0.70	\$0.79	\$1.11
DPS	---	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.54	\$0.54	\$0.63
Shares¹	2.8	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	37	45

Gladstone's growth has been irregular since it went public in 2013, although that growth has settled down a bit recently. From 2016 to 2018, Gladstone produced just over \$0.50 in AFFO-per-share annually, which is below where we see long-term earnings potential after recent acquisitions. With margins once again moving in the right direction, we think Gladstone can grow at 7% annually over the long-term. Acquisitions and rent escalations are likely to be the only sources of AFFO growth in the coming years, as has been the case for some time.

Growth in the trust's portfolio will drive higher rental revenues, but Gladstone continues to suffer from very high funding costs. It issues preferred stock with coupons in the mid-to-high single-digits, and issues common stock that has not only an implied cost of a higher share count, but also a dividend yield of ~2%. With capitalization rates in the mid-single digits, it is very difficult for Gladstone to issue such expensive capital and then profitably invest it in new properties. Given this, Gladstone must tightly control operating expenses to move the needle on a per-share basis, which it has struggled to accomplish at times in the past. We see this as continuing for the foreseeable future unless it finds a cheaper way to fund acquisitions. We note recent financing activity has been completed at more favorable rates, given that the share price has moved much higher, which should help boost the trust's margins further in the years to

¹ Share count 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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come. We also note this can turn quickly with market rates and the trust's share price. With the stock highly overvalued in our view, we see common share issuances as a favorable way to raise funds at the moment. Indeed, the stock is more than double NAV, so issuing common shares is quite efficient for Gladstone.

The dividend was raised fractionally most recently as Gladstone appears to have hit the maximum dividend it can pay until AFFO-per-share increases. The most recent increase was just 0.2%, and while the dividend increase streak is now up to eight years, the dividend is very little changed from a few years ago.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	100.7	49.3	25.8	18.9	22.0	24.8	21.2	21.6	32.3	39.2	23.0
Avg. Yld.	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	2.4%	1.7%	2.5%

Gladstone's price-to-AFFO has been very high in recent years and sits at 39.2 today. We see fair value, given its projected growth and maxed out dividend, at 23 times AFFO. That implies a strong annual headwind to total returns should the stock revert to this valuation, as Gladstone has continued to rally in 2022.

The yield is 1.7% today and we see it rising over time as the valuation moderates from today's extreme level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

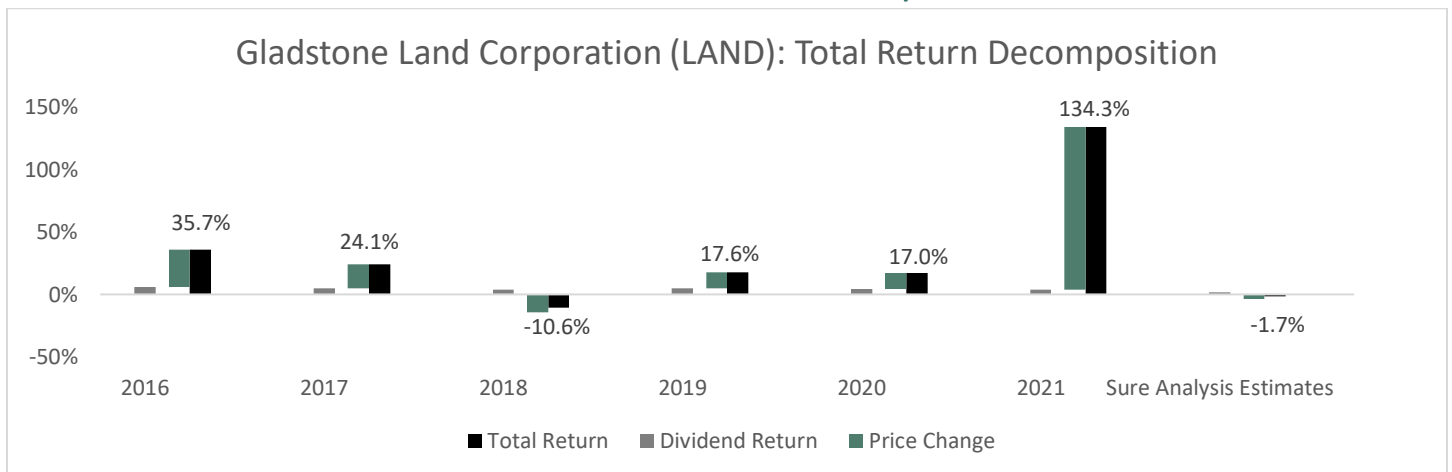
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	144%	118%	93%	93%	104%	93%	82%	77%	68%	57%

Gladstone offers farmers a diverse portfolio of high-quality properties, but it doesn't necessarily have a competitive advantage. Recessions may hurt the trust's earnings as farmers that operate on low margins may struggle if a downturn occurs. Weather is another risk factor for Gladstone and its farmers, as crop destruction can occur for a variety of reasons. The dividend is now much less stretched as it is just 68% of AFFO-per-share for this year.

Final Thoughts & Recommendation

While we like the steady nature of Gladstone's rental income, the stock is far too expensive, and growth too low. We forecast total annual returns of -1.7%, consisting of the dividend yield and strong growth, more than offset by a headwind from the valuation. Given the very high price compared to our estimate of fair value, we are reiterating Gladstone at a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3	4	7	12	17	25	37	41	57	75
Gross Profit	3	4	7	11	17	24	35	38	55	73
Gross Margin	96.5%	97.0%	94.0%	93.3%	95.5%	94.7%	94.4%	93.9%	96.8%	96.6%
SG&A Exp.	1	2	3	3	4	4	5	5	8	10
D&A Exp.	0	1	2	3	5	7	9	13	17	27
Operating Profit	2	2	2	5	7	11	12	19	28	32
Operating Margin	60.6%	37.4%	29.5%	42.3%	42.2%	45.3%	33.0%	47.4%	48.5%	42.1%
Net Profit	1	(1)	(0)	1	0	(0)	3	2	5	3
Net Margin	17.7%	-30.3%	-1.7%	4.8%	2.6%	-0.1%	7.2%	4.3%	8.6%	4.6%
Free Cash Flow	1	(1)	1	2	(1)	1	(12)	9	8	26
Income Tax	0	2	0	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	41	94	152	229	334	462	565	817	1,067	1,352
Cash & Equivalents	1	16	3	3	2	3	15	14	9	17
Inventories	---	---	---	---	---	2	---	---	---	---
Goodwill & Int. Ass.	0	0	1	2	2	5	6	5	4	4
Total Liabilities	33	45	92	151	246	344	384	538	683	762
Accounts Payable	1	1	2	3	3	7	9	10	9	11
Long-Term Debt	31	43	86	142	207	301	336	482	624	668
Shareholder's Equity	8	49	60	78	77	110	176	277	384	587
LTD/E Ratio	3.79	0.89	1.44	1.82	2.70	2.74	1.91	1.74	1.63	1.14

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%	0.3%	0.5%	0.3%
Return on Equity	7.7%	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%	0.8%	1.5%	0.7%
ROIC	1.7%	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%	0.3%	0.6%	0.3%
Shares Out.	2.8	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2
Revenue/Share	0.56	0.65	1.05	1.38	1.73	2.08	2.37	2.08	2.56	2.48
FCF/Share	0.19	(0.20)	0.13	0.17	(0.14)	0.11	(0.79)	0.46	0.38	0.86

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

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