



The Necessity Retail REIT, Inc. (RTL)

Updated February 27th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$7.22	5 Year CAGR Estimate:	9.9%	Market Cap:	\$938.4 M
Fair Value Price:	\$7.35	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	04/09/2022 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	04/15/2022
Dividend Yield:	11.8%	5 Year Price Target	\$7.35	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	21.4%

Overview & Current Events

The Necessity Retail REIT is an externally managed real estate investment trust (REIT), focusing on acquiring and managing a diversified portfolio of primarily service-oriented and traditional retail and distribution-related commercial properties located primarily in the United States. The trust's assets consist primarily of 943 single-tenant properties net leased to investment-grade and other creditworthy tenants and a portfolio of 33 multi-tenant retail properties consisting primarily of power and lifestyle centers. Its 976 properties comprise 20.0 million rentable square feet, which were 93.2% leased at the time of its latest 10-K. American Finance Trust generates around \$335 million in annual revenues and is headquartered in New York, New York.

On February 15th, 2022, American Finance Trust, Inc. (AFIN) changed its name and ticker to The Necessity Retail REIT (RTL).

On February 23rd, 2022, The Necessity Retail REIT reported its Q4 results for the period ending December 31st, 2021. Revenues grew 7% to \$82.5 million, driven by the trust acquiring 69 properties during the year for an aggregate contract purchase price of \$177.9 million at a weighted average capitalization rate of 8.3%. AFFO grew by 3% to \$26.8 million, dragged lower by higher property and interest expenses and a \$3.9 million loss on derivatives. On a per-share basis, AFFO declined by two cents to \$0.22. This was the result of a higher share count, which was utilized to fund the trust's acquisitions, offsetting any growth in AFFO.

The trust collected 100% of Q4's original cash rent due across the portfolio, indicating a full recovery from the more challenging prior-year period. The trust's properties were 93.2% leased at the end of the year, with 8.6 years remaining weighted-average lease term. While financial guidance was not provided, we forecast AFFO/share of \$1.05 for FY2022 based on the trust's current leasing profile.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/shr²	---	---	---	---	\$2.43	\$2.36	\$0.98	\$0.99	\$0.90	\$1.02	\$1.05	\$1.05
DPS	---	---	---	---	\$1.65	\$1.47	\$1.10	\$1.10	\$0.70	\$0.85	\$0.85	\$0.85
Shares³	---	---	---	---	32.7	49.8	105.6	106.4	108.4	115.4	115.4	150.0

The Necessity Retail REIT's performance is highly susceptible to economic downturns, soft occupancy levels, and lack of rent collections. With 50% of its annualized straight-line rent coming from single-tenant retail properties, such issues are not uncommon. For instance, the trust took a hit on rent collections in the midst of the pandemic. In such cases, the trust usually issues large amounts of shares to stay afloat, resulting in significantly lower AFFO/share and dividend cuts. The trust's current growth catalysts include a robust leasing pipeline which is expected to add \$113.4 million of annualized straight-line rent and 9.5 million square feet to the portfolio over time as executed leases commence. Further, the trust features a weighted-average contractual rent increase of 1.3% based on annualized straight-line rent,

¹ Estimated dates based on past dividend dates.

² AFFO refers to FFO excluding certain income or expense items that are not a fundamental attribute of AFIN's operations.

³ 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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though this rate barely accounts for inflation. While AFFO/share growth is possible as the trust expands its portfolio, we forecast 0% annualized growth ahead due to the trust's financials being very susceptible to any headwinds in the single-tenant retail market.

Dividend payments used to be made on a monthly basis, though they changed to a quarterly rate last year. The dividend has been cut more than once in a short period of time. Hence, we expect no dividend growth in the medium term as well.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	---	---	---	---	---	13.6	13.5	7.7	7.8	6.9	7.0
Avg. Yld.	---	---	---	---	---	---	8.2%	8.3%	10.0%	10.3%	11.8%	11.6%

The Necessity Retail REIT features one of the lowest valuations amongst its peers and one of the highest yields as a result. This is likely due to the market being unforgiving of the past dividend cuts, remaining cautious about future unfortunate events. While the trust recovered relatively swiftly last year, we believe that the current humble valuation is fair considering the overall risks attached to its portfolio and the high indebtedness on the balance sheet.

Safety, Quality, Competitive Advantage, & Recession Resiliency

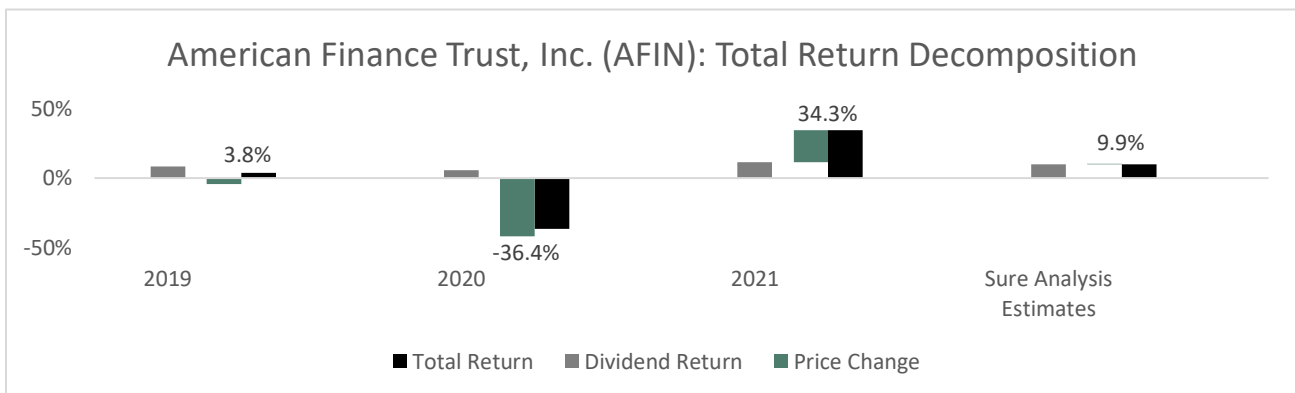
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	68%	62%	112%	111%	78%	83%	81%	81%

The Necessity Retail REIT's generous dividend should not be considered trustworthy. A dividend cut is more than likely during a recession or less than optimal conditions in the retail real estate market. The trust's most noteworthy qualities include a robust acquisition platform and access to cheap financing. Further, 66% of its top 20 tenants are investment-grade rated. However, the trust is also one of the most leveraged amongst its peers, featuring an uncomfortable net debt to EBITDA of 8.2X. We don't note any particular competitive advantages.

Final Thoughts & Recommendation

The Necessity Retail REIT's has only a brief track record to show. The trust is currently one of the cheapest amongst its peers, but with elevated risks attached to its balance sheet. We forecast annualized returns of 9.9%, primarily powered by the stock's generous dividend. The stock earns a hold rating. However, we highlight that income-oriented investors should not blindly trust the dividend. It is likely to be cut again following a recession, debt refinancing at higher rates, or any other negative event that could shift the dynamics of the trust's balance sheet.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	---	158	172	177	271	291	300	305
Gross Profit	---	---	---	145	159	163	228	237	247	253
Gross Margin	---	---	---	91.5%	92.3%	92.3%	84.3%	81.4%	82.4%	82.9%
SG&A Exp.	---	---	---	6	24	29	41	56	59	61
D&A Exp.	---	---	---	95	103	102	148	123	116	129
Operating Profit	---	---	---	45	33	33	34	41	64	55
Operating Margin	---	---	---	28.7%	19.3%	18.5%	12.4%	14.1%	21.2%	18.0%
Net Profit	---	---	---	-2	-21	-54	-46	-37	4	-32
Net Margin	---	---	---	-1.3%	-12.3%	-30.7%	-17.2%	-12.8%	1.4%	-10.4%
Free Cash Flow	---	---	---	100	89	73	84	85	92	84
Income Tax	---	---	---	158	172	177	271	291	300	305

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	2237	2064	3297	3263	3490	3608
Cash & Equivalents	---	---	---	---	131	131	108	91	82	103
Accounts Receivable	---	---	---	---	---	---	29	38	47	67
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	---	---	---	---	245	196	304	272	289	269
Total Liabilities	---	---	---	---	1110	1080	1556	1653	1788	1908
Accounts Payable	---	---	---	---	25	14	27	28	27	25
Long-Term Debt	---	---	---	---	1048	1033	1398	1521	1644	1772
Shareholder's Equity	---	---	---	---	1127	985	1737	1601	1683	1669
LTD/E Ratio	---	---	---	---	0.93	1.05	0.81	0.95	0.98	1.06

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	-2.52%	-1.73%	-1.14%	0.12%	-0.90%
Return on Equity	---	---	---	---	---	-5.14%	-3.42%	-2.24%	0.25%	-1.90%
ROIC	---	---	---	---	---	-2.59%	-1.80%	-1.19%	0.13%	-0.93%
Shares Out.	---	---	---	104	104	104	100	106	106	108
Revenue/Share	---	---	---	1.52	1.65	1.69	2.72	2.76	2.82	2.82
FCF/Share	---	---	---	0.96	0.86	0.70	0.84	0.80	0.86	0.77

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

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