



STAG Industrial (STAG)

Updated February 18th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	5.8%	Market Cap:	\$7.1 B
Fair Value Price:	\$35	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/30/2022
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	4/18/2022
Dividend Yield:	3.7%	5 Year Price Target	\$44	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	0.7%

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 544 buildings across 40 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$7.1 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 53% of the tenants are publicly rated and 31% of the tenants are rated “investment grade.” The company typically does business with established tenants to reduce risk.

In mid-February, STAG Industrial reported (2/16/22) financial results for the fourth quarter of fiscal 2021. Core FFO grew 19% over the prior year’s quarter thanks to the sustained strength of the REIT’s tenants and material hikes in rent rates. Core FFO per share grew at a slower rate (4%), from \$0.49 to \$0.51, due to the issuance of new units. Net operating income grew 14% over the prior year’s quarter and the occupancy rate improved, from 95.9% to 96.9%. STAG Industrial is facing a headwind due to the pandemic. However, the effect of the pandemic on the REIT has been limited so far thanks to the high credit profile of its tenants. The REIT has collected approximately 99% of its rental income in the last four quarters. During the fourth quarter, STAG Industrial acquired 35 buildings for \$689.5 million, at a capitalization rate of 5.2%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$1.25	\$1.44	\$1.33	\$1.42	\$1.43	\$1.70	\$1.80	\$1.84	\$1.89	\$2.06	\$2.20	\$2.81
DPS	\$1.07	\$1.20	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.43	\$1.44	\$1.45	\$1.46	\$1.51
Shares¹	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	150.5	173.7	185.0	320.0

STAG Industrial has grown its FFO per share at a 5.7% average annual rate over the last decade and at a 7.6% average annual rate over the last five years. The U.S. industrial market is more than \$1 trillion in size and STAG Industrial still has a market share that is less than 1% of its target market, which includes the top 60 markets of the country. Therefore, the REIT has ample room to continue to grow for years. As STAG Industrial has begun to recover from the pandemic, along with the economy, we expect it to grow its FFO per share around its historical pace in the upcoming years. If the REIT grows its FFO per share at a 5.0% annual rate, its FFO per share will grow from \$2.20 this year to \$2.81 in 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg P/FFO	14.4	14.2	18.4	13.0	16.7	16.4	14.5	16.0	15.6	18.6	17.7	15.8
Avg. Yld.	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	5.5%	4.9%	4.9%	3.8%	3.7%	3.4%

¹ In millions.

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STAG Industrial is currently trading at a P/FFO ratio of 17.7, which is higher than its historical average of 15.8. If the stock reverts to its average valuation level over the next five years, it will incur a -2.3% annualized drag due to the contraction of its P/FFO ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	78.9%	77.7%	76.2%	70.4%	66.4%	53.8%

STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 5.2 years and about half of the leases maturing after the end of 2025. Thus, the cash flows of the REIT can be considered fairly reliable under normal business conditions. STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a 3.7% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years.

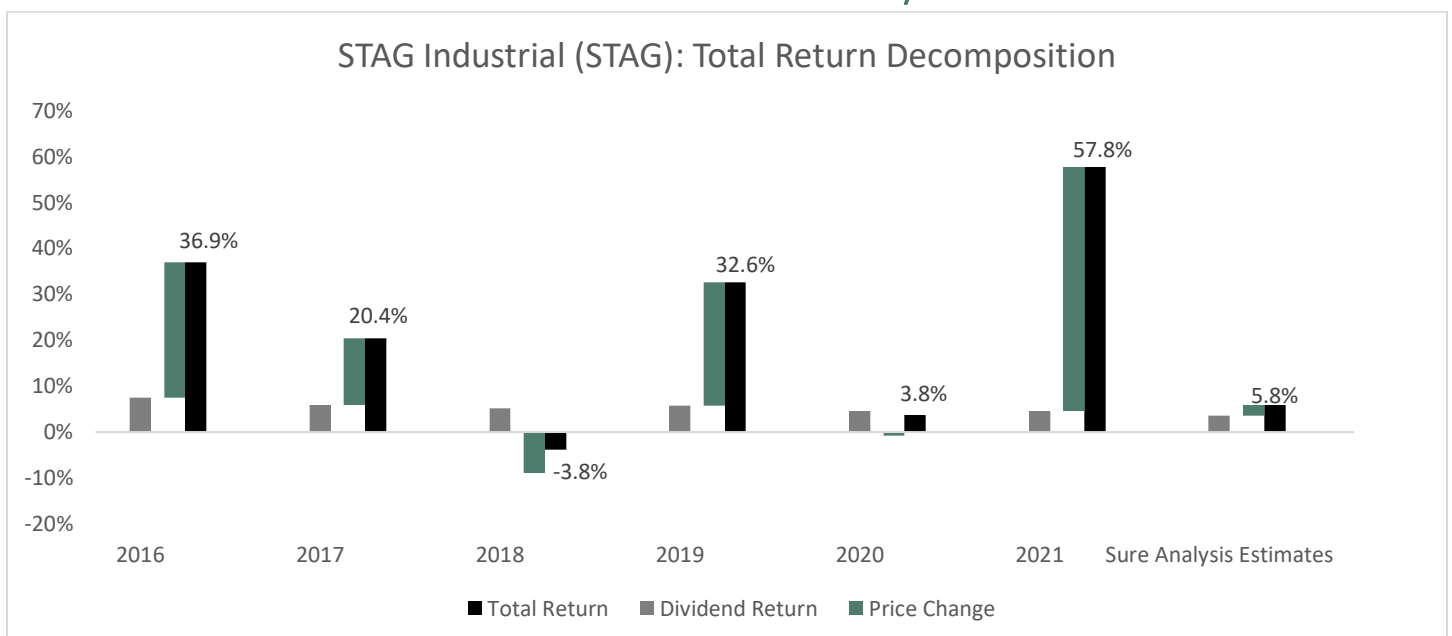
On the other hand, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than quadrupled, from 42 million in 2013 to 174 million now. While the dividend per share has risen only 20% since 2013, the annual amount paid has more than tripled, from \$76 million in 2013 to \$246 million in the last 12 months. As a result, the financial burden of the dividend on the REIT has greatly increased.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. On the bright side, the pandemic has hardly affected the performance of STAG Industrial so far, mostly thanks to the swift recovery of the economy amid huge fiscal stimulus packages.

Final Thoughts & Recommendation

STAG Industrial has proved markedly resilient to the pandemic so far, partly thanks to the unprecedented stimulus packages of the government. We expect the stock to offer a 5.8% average annual return over the next five years and thus rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	84	134	174	219	250	301	351	406	483
Gross Profit	71	110	140	176	201	243	282	331	394
Gross Margin	84.7%	82.1%	80.8%	80.5%	80.5%	80.8%	80.3%	81.5%	81.5%
SG&A Exp.	15	18	26	29	33	33	34	36	40
D&A Exp.	48	77	94	119	132	155	172	190	219
Operating Profit	14	24	26	37	43	59	80	109	139
Op. Margin	16.9%	18.3%	15.1%	16.8%	17.0%	19.6%	22.9%	26.9%	28.8%
Net Profit	-6	6	-4	-27	35	31	93	49	202
Net Margin	-7.7%	4.1%	-2.1%	-12.5%	13.8%	10.4%	26.5%	12.1%	41.8%
Free Cash Flow	48	83	97	122	136	162	198	28	183

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1005	1270	1629	1902	2186	2681	3103	4165	4,693
Cash & Equivalents	19	7	24	12	12	25	8	9	16
Accounts Receivable	9	14	17	21	25	34	42	58	78
Goodwill & Int. Ass.	5	---	248	276	295	313	342	475	500
Total Liabilities	516	596	738	1044	1119	1270	1433	1801	1,922
Accounts Payable	12	19	22	26	35	43	46	54	70
Long-Term Debt	479	556	686	980	1036	1174	1326	1645	1,703
Shareholder's Equity	359	464	725	683	882	1214	1539	2231	2,641
D/E Ratio	1.12	0.92	0.79	1.19	1.01	0.86	0.82	0.71	0.63

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.8%	0.5%	-0.3%	-1.6%	1.7%	1.3%	3.2%	1.4%	4.6%
Return on Equity	-2.5%	1.3%	-0.6%	-3.9%	4.4%	3.0%	6.8%	2.6%	8.3%
ROIC	-0.8%	0.5%	-0.3%	-1.6%	1.8%	1.3%	3.3%	1.4%	4.8%
Shares Out.	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	150.5
Revenue/Share	3.36	3.16	3.21	3.30	3.53	3.35	3.38	3.23	3.24
FCF/Share	1.92	1.95	1.79	1.84	1.92	1.80	1.91	0.22	1.23

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

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