Four Corners Property Trust, Inc. (FCPT)

Updated February 27th, 2022 by Felix Martinez

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$2.15 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/30/22[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	05/15/22
Dividend Yield:	5.0%	**5 Year Price Target**	$36	**Years Of Dividend Growth:**	5
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.1%

Overview & Current Events

Four Corners Property Trust was formed after Darden Restaurants, Inc (DRI) spin-off, announced in November 2015. Four Corners Property Trust commenced trading on November 10, 2015, on the New York Stock Exchange under the symbol FCPT. FCPT has become an independent public trust that intends to elect and qualify to be treated as a real estate investment trust (REIT) effective January 1, 2016. FCPT, headquartered in Mill Valley, CA, is a real estate investment trust primarily acquiring and leasing restaurant properties. The Trust seeks to grow its portfolio by acquiring additional real estate to lease, on a net basis, for use in the restaurant and retail industries. Currently, the Trust has a four-year dividend growth history and a market capitalization of $2.15 billion.

On February 16, 2022, FCPT reported fourth-quarter and full-year 2021 financial and operating results. From the report, the Trust received rent payments representing 99.8% of its portfolio contractual base rent for the quarter ending December 31, 2021, and 99.9% for the year ending December 31, 2021. Rental revenue increased 13.5% over 4Q20 to $45.5 million. Total rental revenue consisted of $45.5 million in cash rents and $7.2 million in the restaurant for total revenue of $52.7 million, which is 18% higher than 4Q2021. Total revenues are up 16.6% for the fiscal year, from $171 million in 2020 to $199 million. This was driven by rent increase and the addition of new properties. Operating expenses increased year over year to $82.1 million from $64.1 million a year ago. Increased operating costs were primarily driven by depreciation and amortization and general and administrative. Net income for the quarter was up 16.9% vs. the prior-year quarter. Net income was $23.7 million for the fourth quarter or $0.30 per diluted share. Net income was $85.7 million for the year or $1.11 per diluted share. These results compare to net income of $77.3 million for 2020, or $1.08 per diluted share.

On a Funds from Operation (FFO) front, the FCPT earned $0.42 per share, representing a $0.03 per share increase compared to the fourth quarter in 2020. However, in Adjusted Funds from Operation (AFFO), the Trust made $0.41, which increases $0.04 per share vs. 4Q20. For the year, AFFO was $1.56, which is 8.3% compared to FY2021. The company also raised its dividend for the fifth year, increasing 4.1%.

FCPT acquired 33 properties for a combined purchase price of $70.5 million during the quarter with an initial weighted average cash yield of 6.4% and a weighted average remaining lease term of 8.4 years.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	$0.82	$0.92	$0.91	$1.51	$1.35	$1.36	$1.41	$1.44	$1.49	$1.56	***$1.65***	***$2.11***
DPS	NA	NA	NA	NA	$1.17	$1.00	$1.11	$1.17	$1.23	$1.29	***$1.35***	***$1.57***
Shares[2]	42.0	42.0	42.0	6.0	60.0	61.0	64.0	69.0	72.0	77.0	***77.0***	***77.0***

The most significant growth prospects from FCPT will be the continuation of profitable acquisitions in the future. The Trust does not have a long history of FFO growths, but FCPT had grown FFO at a Compound Annual Growth Rate (CAGR) of 3.9% over the past five years. During the COVID-19 pandemic, most REITs had to cut their dividend or FFO decreased

[1] Ex-Dividend and Dividend Payment Date are estimates
[2] 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.

for the year. However, FCPT increased earnings by 4% from FY2019 to FY2020. We expect FCPT to continue to grow FFO at a 5% CAGR for the next five years. This means that we expect the Trust to make $2.11 per share in 2027.

The dividend has been growing steadily, with a five-year average growth rate of 6.2%. We think that the Trust will continue to raise its dividend at a pace of 3% for the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	NA	NA	NA	16	15.2	18.9	18.5	18.4	19.9	18.9	***16.2***	***17.0***
Avg. Yld.	NA	NA	NA	NA	5.7%	3.9%	4.3%	4.1%	4.1%	4.4%	***5.0%***	***3.9%***

FCPT currently trades hands with a 16.2x FFO, which is lower than its peers. Over the short history of FCPT, the Trust has five-year multiple averages of 18.9x FFO. However, we think a multiple of 17x FFO is fair for FCPT. This will provide a 1.0% tailwind expansion over the next five years. The current dividend yield of 5.0% is attractive and higher than its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	NA	NA	NA	NA	86%	73%	78%	81%	82%	82%	***82%***	***74%***

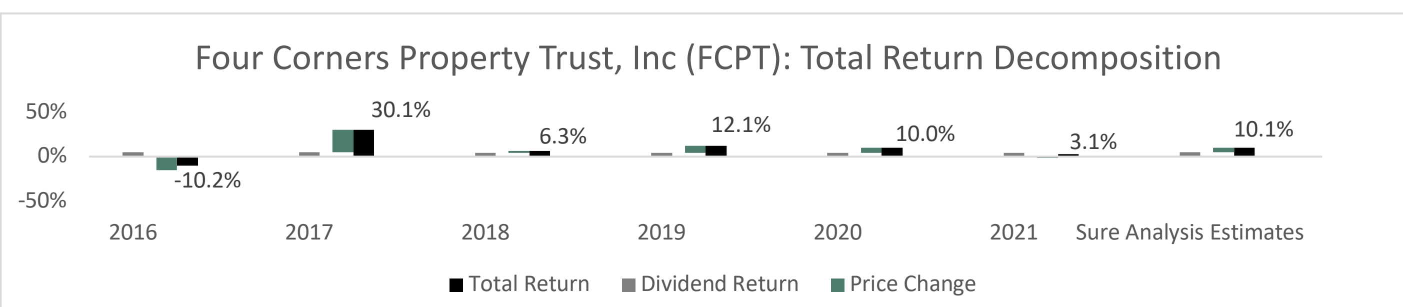
FCPT's competitive advantage is that it has a good management team. Also, the Trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80-90% range for this sector, compared to most shopping center REITs' ~65% operating margins. FCPT does not have a long history, but the Trust held steadfast during the COVID-19 pandemic. From 2019 to the end of 2020, revenue grew 6.9%, and FFO increased 4%. This speaks volumes as most retail REITs struggle mightily during the pandemic. Also, FCPT did not have to cut its dividend. The Trust increased its dividend by 4% in December 2020.

FCPT had a good balance sheet. The Trust has an interest coverage ratio of 3.6 and a debt-to-equity ratio of 1.0. The Trust currently has $6.3 million cash on hand. The dividend payment is in line with other REITs paying out 82% of its FFO. We expect the payout to be in the 75% area for the foreseeable future as FFO grows.

Final Thoughts & Recommendation

FCPT is a well-run retail REIT with a good balance sheet. The Trust went through the COVID-19 pandemic like it was not even there. The Trust looks undervalued, with an expected total return for the next five years to be 10.1%. Thus, we give FCPT a Buy rating at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	17	17	18	33	124	133	144	160	171	199
Gross Profit	3	1	1	16	106	114	124	139	151	170
Gross Margin	17.3%	4.6%	4.3%	49.2%	85.6%	85.8%	86.5%	86.8%	88.5%	85.2%
SG&A Exp.	2		0	2	11	12	13	14	15	18
D&A Exp.	1	1	1	4	21	22	24	26	29	35
Operating Profit	0	0	0	11	75	80	87	99	107	117
Operating Margin	-1.1%	-0.6%	-0.6%	32.4%	60.2%	60.4%	60.6%	61.6%	62.5%	58.8%
Net Profit	0	0	0	6	157	71	82	73	77	86
Net Margin	-0.2%	0.2%	0.2%	17.0%	126.4%	53.6%	57.4%	45.3%	45.2%	42.9%
Free Cash Flow	1	1	1	22	71	79	81	105	91	122
Income Tax	-0.1	-0.1	-0.1	3	-80	0.0	0.3	0.3	0.2	-1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		13	12	929	937	1069	1343	1446	1668	1903
Cash & Equivalents		0	0	98	27	64	92	5	11	6
Accounts Receivable				0.1	0.2	0.4	1	0.4	1	1
Inventories		0.17	0.11	0.2	0.2	0.2	0.2	0.2	3	0
Goodwill & Int. Ass.					2	4	19	58	96	104
Total Liabilities		3	3	488	467	546	644	719	824	939
Accounts Payable		0.4	0.5	1	1	1	1	1	0	1
Long-Term Debt		0	0	392	439	516	616	670	754	878
Shareholder's Equity		10	9	442	465	514	691	721	841	962
LTD/E Ratio		0	0	0.89	0.94	1.00	0.89	0.93	0.90	0.91

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			0.3%	1.2%	16.8%	7.1%	6.8%	5.2%	5.0%	4.8%
Return on Equity			0.3%	2.5%	34.6%	14.6%	13.7%	10.3%	9.9%	9.5%
ROIC			0.3%	1.4%	18.0%	7.3%	7.0%	5.4%	5.2%	5.0%
Shares Out.	42.0	42.0	42.0	6.0	60.0	61.0	64.0	69.0	72.0	77.0
Revenue/Share	0.39	0.40	0.42	5.34	2.08	2.19	2.23	2.33	2.39	2.59
FCF/Share	0.02	0.02	0.02	3.46	1.19	1.30	1.26	1.53	1.28	1.59

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