UMH Properties (UMH)

Updated February 28th, 2022 by Samuel Smith

Key Metrics

Current Price:	$23.3	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$1.2B
Fair Value Price:	$23.9	**5 Year Growth Estimate:**	4.7%	**Ex-Dividend Date:**	05/14/22[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	06/15/22[2]
Dividend Yield:	3.4%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.5%

Overview & Current Events

UMH Properties is a real estate investment trust (i.e., REIT) and is one of the largest manufactured housing landlords in the United States. It was founded in 1968 and currently owns tens of thousands of developed sites and over one hundred communities located across the midwestern and northeastern United States.

On February 24th, 2022, UMH Properties reported Q4 results. FFO per share stood at $0.20 and normalized FFO stood at $0.22. Q4 revenue increased 7% year-over-year to $46 million. Net income attributable to common shareholders came in at $0.17. UMH also reported an improved operating expense ratio, up 130 basis points to 42.8%. Increased same property net operating income by a whopping 13% primarily driven by 4.8% increase in rental rate and increase in same property occupancy by 170 basis points. Rental home occupancy improved by 90 basis points to 94.6%. Finally, Sales of Manufactured Homes grew by 34%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	$0.62	$0.61	$0.55	$0.55	$0.75	$0.72	$0.73	$0.63	$0.70	$0.87	***$1.03***	***$1.25***
NAV/S	NA	$9.79	$9.52	$9.89	$13.10	$16.08	$17.73	$16.42	$16.83	$25.78	***$23.89***	***$30.00***
DPS	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.76	***$0.80***	***$0.90***
Shares[3]	17.1	20.8	24.4	27.1	29.4	35.5	38.3	41.1	41.9	49.0	***49.0***	***55.0***

UMH Properties has managed to grow its net asset value (NAV) per share at an attractive rate in recent years and we expect it to be able to continue doing so for the foreseeable future. UMH Properties' average occupancy rate is now reaching levels that will give management greater pricing power over tenants, thereby delivering better same property net operating income growth.

Additionally, its preferred shares are trading at levels that will enable the company to redeem and reissue them at significantly lower yields, thereby improving the company's FFO-per-share metrics while also improving the cost of capital.

Last, but not least, UMH Properties still owns a large portfolio of undeveloped land that it plans to develop in the coming years which will drive FFO per share and NAV per share growth in the coming years. The REIT also has a sizable portfolio that can be liquidated as needed to drive accretive growth investments. Overall, we expect NAV per share to grow at a 4.7% annualized clip over the next half decade.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/NAV	NA	0.95	1.00	1.03	1.11	0.93	0.67	0.94	0.90	0.93	***0.93***	***1.00***
Avg. Yld.	7.1%	7.7%	7.6%	7.1%	5.0%	4.8%	6.0%	4.6%	4.8%	3.2%	***3.4%***	***3.0%***

[1] Estimate

[2] Estimate

[3] 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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UMH Properties is growing and is set to continue doing so at a solid clip. Furthermore, the balance sheet and portfolio stability have also recently improved materially. As a result, despite some legitimate concerns about the publicly traded REIT portfolio's past performance and current constitution, we believe that this REIT deserves to trade in line with its net asset value. As a result, we expect slight multiple expansion 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	116%	118%	131%	131%	96%	100%	99%	114%	103%	85%	***78%***	***72%***

Given that manufactured homes tend to be lower price point housing, they are quite resilient in the face of economic downturns. As a result, we view UMH Properties as a recession resilient business. This played out in 2020 when FFO and NAV per share both grew year-over-year, and the dividend payout level was maintained despite the COVID-19 disruption to the economy. That said, it is important to keep in mind that UMH Properties' communities are located in midwestern and northeastern regions that would likely be more significantly impacted by a protracted recession, so the REIT is not totally recession proof.

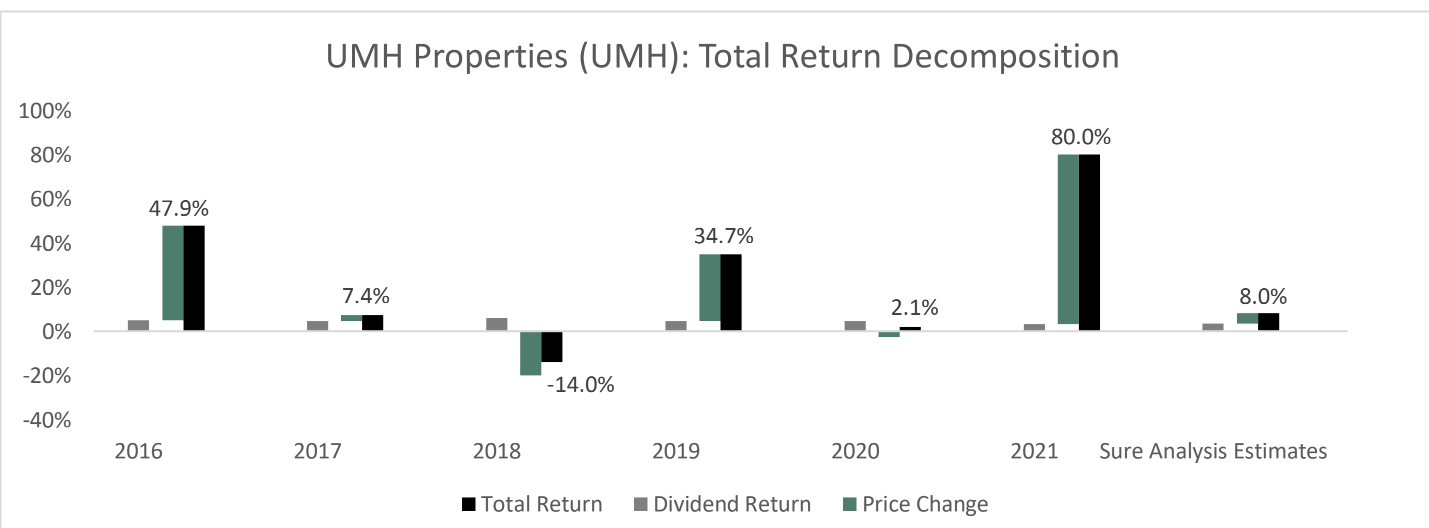
Given that management recently raised the dividend, and it remains sufficiently covered by FFO-per-share with significant growth on the way, we believe the dividend is quite safe for the foreseeable future and is in fact likely to see additional growth in the years to come.

Another risk to keep in mind is that UMH Properties holds a significant publicly traded REIT portfolio of its own. As a result, investors in UMH are not merely buying its manufactured community housing portfolio but are also adding exposure to the REIT names in UMH's portfolio. Given the mixed results of UMH's REIT investing performance, it is uncertain if this approach is adding or detracting value from shareholders and, in a sharp market selloff – investors could see NAV fall faster than it would otherwise.

Final Thoughts & Recommendation

UMH Properties is an emerging dividend growth REIT that currently offers an attractive and safe 3.4% dividend yield with mid-single digit annualized FFO per share growth potential. Additionally, the REIT is quite recession resistant, making it a pretty decent risk-adjusted investment at current prices. Overall, we rate shares a Hold as our annualized total return projection is good but not great at 8.0%. However, we view shares as a Buy on any future pullbacks.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	47	62	71	82	99	113	130	147	164	186
Gross Profit	18	26	32	39	50	56	65	72	86	98
Gross Margin	39.2%	41.6%	44.8%	48.3%	50.5%	50.0%	50.1%	49.1%	52.6%	52.6%
SG&A Exp.	8	9	9	10	11	13	15	15	16	19
D&A Exp.	7	12	15	19	23	28	32	37	42	45
Operating Profit	3	6	7	10	16	16	19	20	28	34
Operating Margin	7.4%	9.1%	10.4%	12.8%	16.2%	14.2%	14.3%	13.6%	17.3%	18.2%
Net Profit	6	6	4	2	12	13	(36)	28	5	51
Net Margin	13.8%	9.4%	5.9%	2.6%	11.6%	11.2%	-27.9%	18.9%	3.1%	27.5%
Free Cash Flow	9	11	24	26	29	41	40	39	67	65

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	300	408	478	600	680	824	881	1,025	1,089	1,271
Cash & Equivalents	11	8	8	7	4	23	7	13	15	116
Inventories	12	14	12	14	17	18	24	32	25	24
Total Liabilities	125	217	269	354	363	403	456	479	588	529
Accounts Payable	1	2	2	3	3	3	4	5	4	4
Long-Term Debt	119	210	260	341	351	390	439	457	558	499
Shareholder's Equity	83	99	117	110	130	182	136	141	94	280
LTD/E Ratio	0.68	1.10	1.25	1.38	1.11	0.92	1.03	0.84	1.11	0.67

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.5%	1.6%	1.0%	0.4%	1.8%	1.7%	-4.2%	2.9%	0.5%	4.3%
Return on Equity	8.3%	6.4%	3.9%	1.9%	9.6%	8.1%	-22.8%	20.0%	4.3%	27.3%
ROIC	2.5%	1.7%	1.0%	0.4%	1.8%	1.7%	-4.3%	3.0%	0.5%	4.4%
Shares Out.	17.1	20.8	24.4	27.1	29.4	35.5	38.3	41.1	41.9	49.0
Revenue/Share	2.88	3.31	3.18	3.14	3.57	3.45	3.51	3.65	3.95	3.92
FCF/Share	0.56	0.60	1.08	0.99	1.05	1.25	1.09	0.96	1.61	1.37

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