



SL Green Realty Corp. (SLG)

Updated April 26th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	11.7%	Market Cap:	\$4.9 B
Fair Value Price:	\$86	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	4/28/2022
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date:	5/16/2022
Dividend Yield:	5.0%	5 Year Price Target	\$110	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

SL Green Realty Corp. (SLG) was formed in 1980. It is an integrated real estate investment trust (REIT) that is focused on acquiring, managing, and maximizing the value of Manhattan commercial properties. It is Manhattan's largest office landlord, with a market capitalization of \$4.9 billion, and currently owns 72 buildings totaling 35 million square feet.

In mid-April, SLG reported (4/20/2022) financial results for the first quarter of fiscal 2022. Its same-store net operating income grew 9.3% over the prior year's quarter but its occupancy rate slightly decreased, from 93.0% at the end of the previous quarter to 92.7%. As a result, its funds from operations (FFO) per share dipped -5% over the prior year's quarter, from \$1.73 to \$1.65. The REIT exceeded the analysts' consensus marginally (by \$0.01). During the quarter, SLG signed 37 Manhattan office leases for a total of 820,989 square feet.

SLG has been significantly affected by the coronavirus crisis, which has hurt several companies that are tenants of SLG. Occupancy of office space in New York is near historic lows. This has caused an unprecedented tenant-friendly environment and challenges to the business of SLG. Management has not provided guidance for 2022. However, thanks to expected improvement in its business, SLG announced a 2.5% dividend raise in December.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$5.28	\$5.16	\$5.85	\$6.38	\$8.29	\$6.45	\$6.62	\$6.99	\$7.11	\$6.80	\$6.60	\$8.42
DPS	\$1.08	\$1.49	\$2.10	\$2.52	\$2.94	\$3.14	\$3.29	\$3.44	\$3.54	\$3.64	\$3.73	\$4.48
Shares¹	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9	67.0	60.0

SLG benefits from reliable growth in rental rates in one of the most popular commercial areas in the world, Manhattan. The REIT pursues growth by acquiring attractive properties and raising rental rates in its existing properties. It also signs multi-year contracts (7-15 years) with its tenants in order to secure reliable cash flows. SLG has grown its funds from operations per share at a 2.9% average annual rate in the last decade. Due to the effect of the pandemic on its business, funds from operations decreased last year. However, thanks to the massive distribution of vaccines, the pandemic has begun to subside. We thus expect SLG to grow its funds from operations per share at a 5.0% average annual rate over the next five years off this year's low expected level.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	14.6	17.1	18.2	17.8	12.5	16.1	14.6	12.2	8.3	10.6	11.4	13.0
Avg. Yld.	1.4%	1.7%	2.0%	2.2%	2.8%	3.0%	3.4%	4.0%	5.1%	5.0%	5.0%	4.1%

SLG has traded at an average price-to-FFO ratio of 14.2 during the last decade. Due to the impact of the pandemic on its business, the REIT is currently trading at a much lower FFO multiple of 11.4. In order to be conservative, we assume a

¹ In millions.

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fair price-to-FFO ratio of 13.0. If SLG reaches our fair valuation level in five years, it will enjoy a 2.7% annualized boost to its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	20%	29%	36%	39%	35%	49%	50%	49%	50%	54%	57%	53%

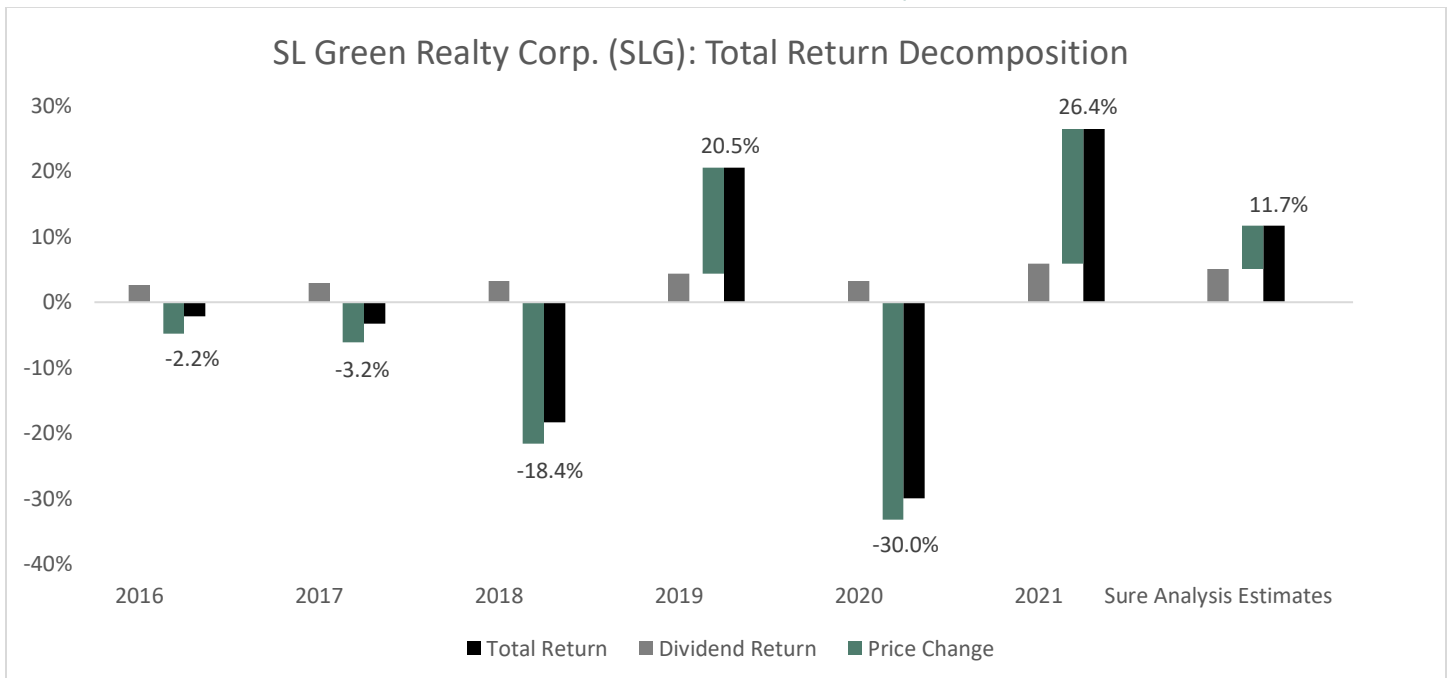
During the last 40 years, SLG has been operating, investing and developing several high-quality commercial properties in Manhattan. As a result, it has developed great expertise in the area, which constitutes a significant competitive advantage.

SLG is currently under pressure due to the pandemic, which has caused a work-from-home trend. However, the REIT has one of the strongest balance sheets in the REIT universe, as its net debt of \$5.2 billion is just 10 times its annual funds from operations. This helps explain the strong BBB credit rating of SLG. Thanks to its financial strength, the REIT can endure the ongoing crisis and emerge stronger whenever the pandemic subsides. It can also maintain its attractive 5.0% dividend, which is well covered by cash flows, with a healthy payout ratio of 57%. SLG is thus suitable for income-oriented investors who can wait patiently for the recovery of the REIT from the pandemic.

Final Thoughts & Recommendation

SLG is the largest landlord in the area of Manhattan and thus it is ideal for those who want to benefit from the reliable, multi-year growth in rental rates in this area. The REIT is currently facing the headwind from the pandemic, which has led many companies to work from home. However, we expect the pandemic to subside and see more people return to working in offices later this year. Thanks to the optimism for a recovery of SLG from the pandemic, the stock has doubled off its bottom in 2020. Nevertheless, thanks to its 5.0% dividend, 5.0% annual growth of FFO per share and a 2.7% potential annualized expansion of its valuation level, SLG could still offer an 11.7% average annual return over the next five years. We thus maintain our buy 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	1,290	1,371	1,520	1,663	1,864	1,511	1,227	1,239	1,053	844
Gross Profit	788	859	988	1,096	1,269	941	779	780	664	497
Gross Margin	61.1%	62.7%	65.0%	65.9%	68.1%	62.2%	63.4%	63.0%	63.1%	58.9%
SG&A Exp.	83	86	92	95	100	100	93	101	92	95
D&A Exp.	352	358	400	588	846	419	290	284	325	228
Operating Profit	394	449	523	440	349	437	179	400	198	162
Operating Margin	30.5%	32.7%	34.4%	26.5%	18.7%	28.9%	14.6%	32.3%	18.8%	19.2%
Net Profit	199	138	521	291	261	113	259	281	380	457
Net Margin	15.4%	10.0%	34.3%	17.5%	14.0%	7.5%	21.1%	22.7%	36.1%	54.2%
Free Cash Flow	347	386	490	526	644	543	442	376	554	256

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14,386	14,959	17,097	19,728	15,858	13,983	12,751	12,766	11,708	11,067
Cash & Equivalents	190	207	281	255	279	128	129	166	266	251
Accounts Receivable	397	447	432	562	496	423	378	327	347	296
Long-Term Debt	6,520	6,920	8,179	10,275	6,482	5,855	5,542	5,508	4,929	4,017
Shareholder's Equity	6,017	6,303	6,715	7,066	7,103	6,003	5,680	5,219	4,688	4,543
LTD/E Ratio	1.01	1.06	1.18	1.41	0.88	0.94	0.94	1.01	1.00	0.84

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	0.9%	3.2%	1.6%	1.5%	0.8%	1.9%	2.2%	3.1%	4.0%
Return on Equity	3.4%	2.2%	8.0%	4.2%	3.7%	1.7%	4.4%	5.2%	7.7%	9.9%
ROIC	1.5%	1.0%	3.4%	1.7%	1.5%	0.8%	2.0%	2.4%	3.4%	4.6%
Shares Out.	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9
Revenue/Share	14.30	14.81	15.69	16.50	18.29	15.04	14.18	14.69	13.61	11.57
FCF/Share	3.84	4.17	5.06	5.22	6.32	5.40	5.10	4.46	7.16	3.51

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

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