Uniti Group (UNIT)

Updated May 8th, 2022 by Samuel Smith

Key Metrics

Current Price:	$11.4	**5 Year CAGR Estimate:**	15.9%	**Market Cap:**	$5.9B
Fair Value Price:	$17.3	**5 Year Growth Estimate:**	2.9%	**Ex-Dividend Date:**	06/16/22
% Fair Value:	66%	**5 Year Valuation Multiple Estimate:**	8.7%	**Dividend Payment Date:**	07/01/22
Dividend Yield:	5.3%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Uniti Group is a Real Estate Investment Trust (i.e., REIT) that focuses on acquiring, constructing, and leasing out communications infrastructure in the United States. In particular, it owns millions of miles of fiber strand along with other communications real estate. In its recent past it has faced challenges due to its largest tenant filing for bankruptcy and renegotiating its lease with Uniti. However, the REIT is now on firmer footing and is pursuing growth opportunities.

On May 5th, Uniti Group reported Q1 results. AFFO per share increased 9% to $0.43 from $0.41 year-over-year. Net income stood at $0.21 per diluted share, up by $0.23 per diluted share year-over-year. Revenue grew 2.0% to $278.03 million year-over-year. Adjusted EBITDA increased 4.9% to $224.8 million from $214.2 million in the year-ago period. Uniti reported total costs and expenses of $227.8 million, down from $280.0 million in the year-ago period. Moreover, unrestricted cash and cash equivalents, and undrawn borrowing availability under its revolving credit agreement stood at ~$386.6 million at quarter-end. Meanwhile, the company raised its FY2022 adjusted EBITDA guidance from $881 million - $899 million to $884 million - $902 million, and 2022 AFFO guidance from $439 million - $457 million to $441 million - $459 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/S	---	---	---	$1.78	$2.61	$2.51	$2.51	$2.08	$1.72	$1.68	***$1.73***	***$2.00***
DPS	---	---	---	$1.64	$2.40	$2.40	$2.40	$0.00	$0.60	$0.60	***$0.60***	***$0.90***
Shares[1]	---	---	---	150.5	155.8	175.4	183.1	193.3	232.9	236.1	***235.0***	***240.0***

Since the IPO in 2015, Uniti Group has struggled to grow AFFO per share as it has been weighed down by a heavy debt burden and significant troubles with a very large tenant. Eventually it was forced to renegotiate its lease and as a result has taken a hit to cash flows. However, the REIT is on much firmer footing today and is looking to reignite growth.

It is primarily working to drive this growth through refinancing its debt at significantly lower rates in order to generate increased cash flow from existing revenue streams while also leasing up its under-utilized assets. By adding leasing to its assets it can generate extremely high returns on investment capital as additional customers require minimal additional capital expenditures, but bring in strong cash flows. As a result, we expect Uniti Group to generate 2.9% annualized AFFO per share growth over the next half decade.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/AFFO	---	---	---	10.5	9.7	7.4	6.3	4.0	6.8	8.3	***6.6***	***10.0***
Avg. Yld.	---	---	---			1.7%	3.1%	1.6%	0.9%	4.4%	***5.3%***	***4.5%***

[1] In millions

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Uniti Group has traded at mid to high single digit P/AFFO multiples for most of its existence. That said, we believe it now deserves a higher multiple given that it is standing on stronger footing after it renegotiated the lease with its largest tenant and is now pivoting to growth.

With interest rates at historic lows and Uniti poised to grow AFFO per share at a steady clip moving forward, we assign a fair value P/AFFO multiple of 10x, which should provide a meaningful tailwind to total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	92%	92%	96%	96%	NA	35%	37%	***35%***	***45%***

While Uniti Group's balance sheet is far from rock solid, it is on firmer footing and continuing to improve as management works to refinance debt to improve the maturity ladder as well as reduce interest costs. Furthermore, the trust is retaining a lot of cash right now thanks to the low payout ratio which it is using to deleverage and pursue growth opportunities which should in turn reduce leverage further.

Uniti's fiber assets are critical infrastructure in the regions in which it operates and therefore the REIT should enjoy fairly stable cash flows in the face of a recession. While its assets are mission critical, there is nothing unique about Uniti Group that gives it a durable competitive advantage. As a result, it lacks meaningful pricing power and therefore is unlikely to drive abnormally high profitability over time. The main source of total returns will be a combination of its stable cash flowing business model and multiple expansion to compensation for the current deep discount in shares.

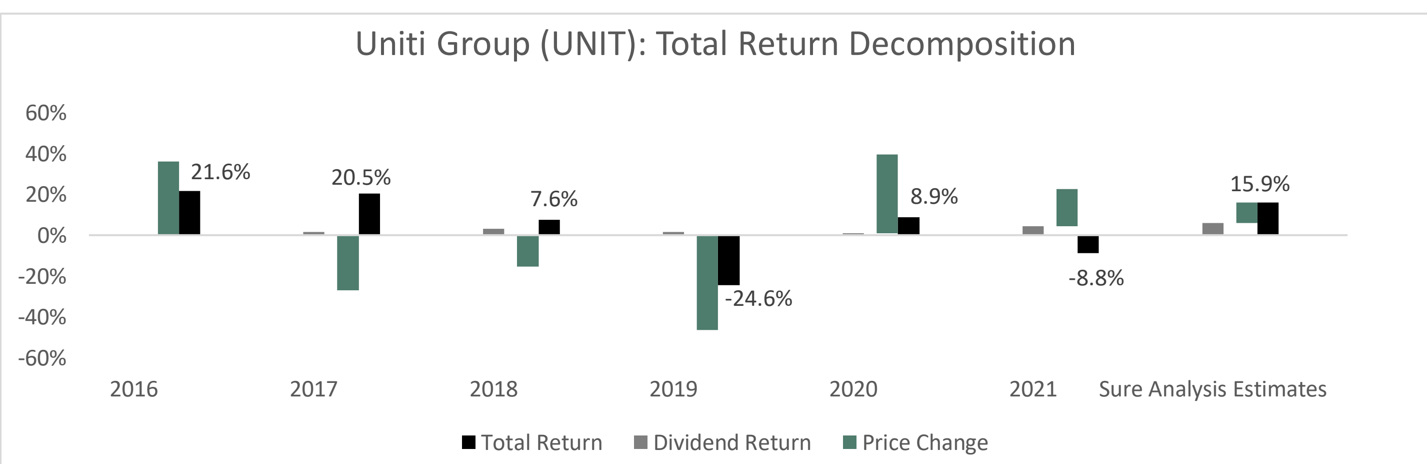
Given the low payout ratio, significant growth upside, and the mission critical and recession resistant nature of Uniti's assets, the dividend looks quite safe for the foreseeable future.

Final Thoughts & Recommendation

Uniti Group offers investors the best of all three investment approaches: a stable and attractive dividend with the potential for growth in the near future, a significantly undervalued business model that could lead to rapid price appreciation as the multiple expands, and meaningful growth opportunities in its fiber assets that should drive attractive long term price appreciation.

While the balance sheet is not as strong as we would like to see it, and the management team needs to re-earn investor trust after the past several years of disappointing returns, Uniti's best days appear to be ahead of it and the 15.9% expected annualized total returns for the next half decade make it a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	63	45	36		770	916	1,018	1,058	1,067	1,101
Gross Profit	31	22	17							
Gross Margin	49.0%	48.5%	47.1%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A Exp.	1	0	0		35	72	85	103	105	101
D&A Exp.					376	434	452	406	329	291
Operating Profit	25	17	12		309	308	344	389	473	562
Operating Margin	38.6%	36.6%	34.1%		40.2%	33.6%	33.8%	36.8%	44.4%	51.0%
Net Profit	25	17	12		(0)	(9)	16	11	(706)	124
Net Margin	38.6%	36.6%	34.1%		0.0%	-1.0%	1.6%	1.0%	-66.2%	11.2%
Free Cash Flow					341	239	49	267	(160)	113
Income Tax					1	(39)	(5)	5	(15)	(5)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		22	17	2,543	3,319	4,330	4,593	5,017	4,732	4,809
Cash & Equivalents				142	172	60	38	143	78	59
Accounts Receivable		3	2	14	44	91	166	80	76	80
Goodwill & Int. Ass.										
Total Liabilities		19	14	11	423	1,103	1,125	1,223	993	967
Accounts Payable		10	8	3,710	4,641	5,454	6,000	6,500	6,804	6,923
Long-Term Debt				10	41	78	94	227	146	144
Shareholder's Equity	-	-	-		4,028	4,483	4,846	5,018	4,817	5,091
LTD/E Ratio		12	9	(1,167)	(1,402)	(1,309)	(1,586)	(1,567)	(2,142)	(2,128)

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			63.8%		0.0%	-0.2%	0.4%	0.2%	-14.5%	2.6%
Return on Equity			117%							
ROIC			117%		0.0%	-0.3%	0.5%	0.3%	-22.5%	4.3%
Shares Out.										
Revenue/Share	0.42	0.30	0.24		5.05	5.42	5.75	5.64	5.24	4.17
FCF/Share					2.24	1.42	0.28	1.42	(0.79)	0.43

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