



# SL Green Realty Corp. (SLG)

Updated July 21<sup>st</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$48	<b>5 Year CAGR Estimate:</b>	21.1%	<b>Market Cap:</b>	\$3.2 B
<b>Fair Value Price:</b>	\$82	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	7/28/2022
<b>% Fair Value:</b>	59%	<b>5 Year Valuation Multiple Estimate:</b>	11.3%	<b>Dividend Payment Date:</b>	8/15/2022
<b>Dividend Yield:</b>	7.8%	<b>5 Year Price Target</b>	\$104	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$3.2 billion, and currently owns 64 buildings totaling 34 million square feet.

In mid-July, SLG reported (7/20/2022) financial results for the second quarter of fiscal 2022. Its occupancy rate slipped from 92.7% at the end of the previous quarter to 92.0%, but its same-store net operating income grew 6.7% over the prior year's quarter. Given also a benefit of \$0.14 per share from assets purchases and sales, its funds from operations (FFO) per share grew 17% over the prior year's quarter, from \$1.60 to \$1.87. The REIT exceeded the analysts' consensus by \$0.17. During the quarter, SLG signed 39 Manhattan office leases for a total of 188,822 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 has raised its dividend by 2.5% this year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>FFO</b>	\$5.28	\$5.16	\$5.85	\$6.38	\$8.29	\$6.45	\$6.62	\$6.99	\$7.11	\$6.80	<b>\$6.60</b>	<b>\$8.42</b>
<b>DPS</b>	\$1.08	\$1.49	\$2.10	\$2.52	\$2.94	\$3.14	\$3.29	\$3.44	\$3.54	\$3.64	<b>\$3.73</b>	<b>\$4.32</b>
<b>Shares<sup>1</sup></b>	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9	<b>67.0</b>	<b>60.0</b>

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 subsided. 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
<b>Avg. P/FFO</b>	14.6	17.1	18.2	17.8	12.5	16.1	14.6	12.2	8.3	10.6	<b>7.3</b>	<b>12.4</b>
<b>Avg. Yld.</b>	1.4%	1.7%	2.0%	2.2%	2.8%	3.0%	3.4%	4.0%	5.1%	5.0%	<b>7.8%</b>	<b>4.1%</b>

SLG has traded at an average price-to-FFO ratio of 14.2 during the last decade. Due to the impact of the pandemic and the work-from-home trend on its business, the REIT is currently trading at a 10-year low FFO multiple of 7.3. In order to

<sup>1</sup> In millions.

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be conservative, we assume a fair price-to-FFO ratio of 12.4, which is equal to the 5-year average of the stock. If SLG reaches our fair valuation level in five years, it will enjoy an 11.3% 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%	<b>57%</b>	<b>51%</b>

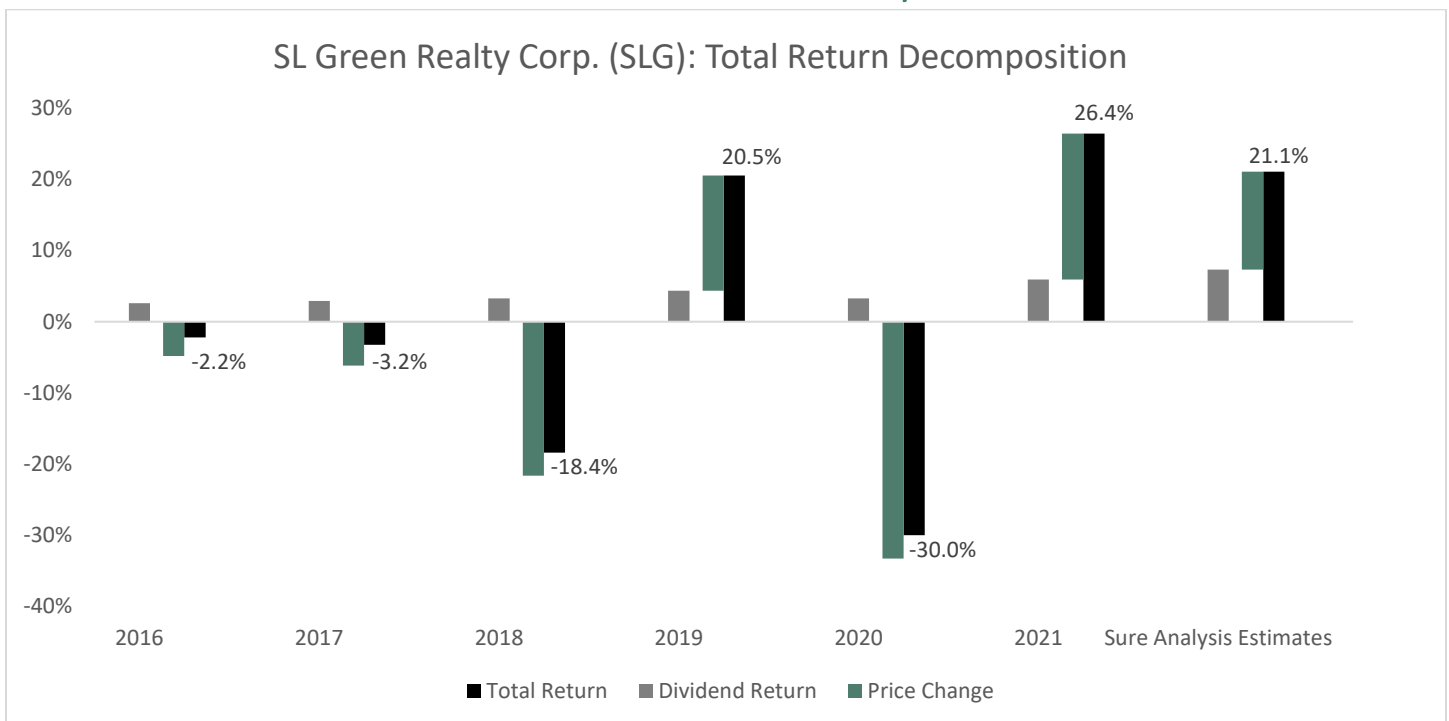
During the last 40 years, SLG has been operating, investing and developing several high-quality commercial properties in Manhattan. As a result, it has developed great expertise in the area, which constitutes a significant competitive advantage.

SLG is currently under pressure due to the pandemic, which has caused a work-from-home trend. However, the REIT has a healthy balance sheet, as its net debt of \$5.1 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 work-from-home trend subsides. It can also maintain its attractive 7.8% 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, and thus it is trading at a 10-year low valuation level. However, we expect the pandemic to subside and see more people return to working in offices later this year. Thanks to its 7.8% dividend, 5.0% annual growth of FFO per share and an 11.3% potential annualized expansion of its valuation level, SLG could offer a 21.1% 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
<b>Revenue</b>	1,290	1,371	1,520	1,663	1,864	1,511	1,227	1,239	1,053	844
<b>Gross Profit</b>	788	859	988	1,096	1,269	941	779	780	664	497
<b>Gross Margin</b>	61.1%	62.7%	65.0%	65.9%	68.1%	62.2%	63.4%	63.0%	63.1%	58.9%
<b>SG&amp;A Exp.</b>	83	86	92	95	100	100	93	101	92	95
<b>D&amp;A Exp.</b>	352	358	400	588	846	419	290	284	325	228
<b>Operating Profit</b>	394	449	523	440	349	437	179	400	198	162
<b>Operating Margin</b>	30.5%	32.7%	34.4%	26.5%	18.7%	28.9%	14.6%	32.3%	18.8%	19.2%
<b>Net Profit</b>	199	138	521	291	261	113	259	281	380	457
<b>Net Margin</b>	15.4%	10.0%	34.3%	17.5%	14.0%	7.5%	21.1%	22.7%	36.1%	54.2%
<b>Free Cash Flow</b>	347	386	490	526	644	543	442	376	554	256

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	14,386	14,959	17,097	19,728	15,858	13,983	12,751	12,766	11,708	11,067
<b>Cash &amp; Equivalents</b>	190	207	281	255	279	128	129	166	266	251
<b>Accounts Receivable</b>	397	447	432	562	496	423	378	327	347	296
<b>Long-Term Debt</b>	6,520	6,920	8,179	10,275	6,482	5,855	5,542	5,508	4,929	4,017
<b>Shareholder's Equity</b>	6,017	6,303	6,715	7,066	7,103	6,003	5,680	5,219	4,688	4,543
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.4%	0.9%	3.2%	1.6%	1.5%	0.8%	1.9%	2.2%	3.1%	4.0%
<b>Return on Equity</b>	3.4%	2.2%	8.0%	4.2%	3.7%	1.7%	4.4%	5.2%	7.7%	9.9%
<b>ROIC</b>	1.5%	1.0%	3.4%	1.7%	1.5%	0.8%	2.0%	2.4%	3.4%	4.6%
<b>Shares Out.</b>	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9
<b>Revenue/Share</b>	14.30	14.81	15.69	16.50	18.29	15.04	14.18	14.69	13.61	11.57
<b>FCF/Share</b>	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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