Global Net Lease (GNL)

Updated August 13th, 2022 by Samuel Smith

Key Metrics

Current Price:	$15	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$1.6B
Fair Value Price:	$12	**5 Year Growth Estimate:**	4.4%	**Ex-Dividend Date:**	10/08/22[1]
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	10/15/22[2]
Dividend Yield:	10.7%	**5 Year Price Target**	$15	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. and Europe with an emphasis on sale-leaseback transactions. The trust owns well in excess of 300 properties, of which office is the largest sector, followed by industrial and retail. Global Net Lease is a $1.6 billion market capitalization business.

On August 4th, 2022 Global Net Lease reported Q2 results. The company reported net loss attributable to common stockholders of $5.8 million compared to $2.4 million in the year-ago period. Net Operating Income stood at $87.4 million, up from $86.9 million in the year-ago quarter. AFFO came in at $0.43, down from $0.44 year-over-year. Core FFO increased 13.5% to $50.0 million from $44.0 million year-over-year. Revenue decreased 7.1% to $92.5 million year-over-year. Meanwhile, the company's portfolio was 98.9% leased with 8.3 years of weighted average remaining lease term. Global Net Lease also reported that over 62% of annualized straight-line rent comes from Investment Grade or implied Investment Grade tenants. Moreover, during the quarter, the company closed three property acquisitions for a total purchase price of $33.0 million at a weighted average cap rate of 7.7% and with 13.6 years of weighted-average lease term remaining. Finally, dividends distributed to common shareholders was $41.6 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	---	---	---	$1.96	$2.24	$2.10	$2.12	$1.85	$1.79	$1.77	***$1.73***	***$2.15***
DPS	---	---	---	$1.40	$2.13	$2.13	$2.13	$2.13	$1.73	$1.60	***$1.60***	***$1.75***
Shares[3]	---	---	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	***103.3***	***120.0***

Note that Global Net Lease was not publicly listed until 2015, which results in a very short observation history.

From first glance, Global Net Lease appears to be a strong REIT with 100+ tenants, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar, diversified across seven countries. However, there are a variety of underlying concerns, especially as it relates to potential growth.

General concerns include potential conflicts of interest due to being externally managed by AR Global Investments (which invests for other entities), the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an "implied" credit model.

While GNL should be fairly well insulated from recessions thanks to their net lease structure and their diversified pool of investment grade tenants, they did cut their dividend in 2020 as coverage was already very tight. However, the retained cash flow will enable them to invest accretively and resume consistent AFFO-per-share growth in the years to come as the economy recovers and behavioral habits return to normal. We forecast 4.4% AFFO per share growth through 2027.

[1] Estimate

[2] Estimate

[3] In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	---	12.2	10.5	9.8	8.4	9.3	9.5	9.6	8.9	***8.7***	***7.0***
Avg. Yld.	---	---	6.8%	9.7%	12.1%	10.9%	10.4%	10.1%	8.6%	10.2%	***10.7%***	***11.6%***

Over the past four years shares have traded hands in the $15 to $27 range, implying an AFFO multiple in the 7 to 13 range. Given the current economic uncertainty across the globe and our concerns about sustainable long-term per-share growth, our fair value estimate will be on the low end of the spectrum at 7 times AFFO. As a result, we view shares as slightly overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	71%	95%	101%	101%	99%	97%	90%	***92%***	***81%***

The balance sheet is reasonably liquid and flexible given the strong interest coverage ratio, low weighted-average interest rate, well laddered debt maturities, and high percentage of fixed-rate debt. Additionally, after its recent dividend cut, the payout ratio improves the current dividend's safety and improves its chances of achieving accretive growth.

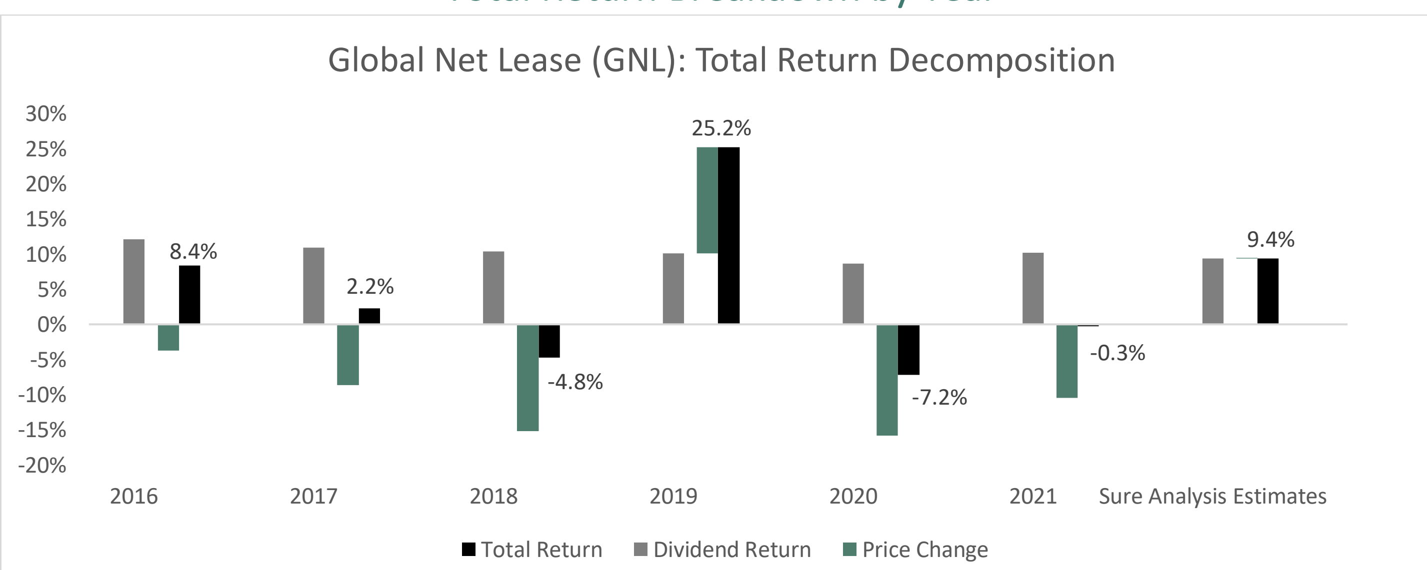
As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio heading into the coronavirus outbreak unsurprisingly led to a dividend cut in 2020.

Final Thoughts & Recommendation

GNL is supported by a diversified and defensively positioned portfolio of mostly investment grade tenants signed to long term triple net leases. However, the external management leaves investors at considerable risk of suffering from misaligned interests and potentially underwhelming future growth.

We rate shares a Hold given the 9.4% annualized total return potential over the next half decade.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	0	4	93	205	214	259	282	306	330	391
Gross Profit	0	4	85	187	195	230	253	278	298	358
Gross Margin	100.0%	98.9%	91.5%	91.1%	91.1%	88.9%	89.8%	90.8%	90.2%	91.6%
SG&A Exp.	0	0	5	43	31	29	41	53	59	67
D&A Exp.	0	2	42	92	97	118	125	131	143	168
Operating Profit	(0)	2	40	54	70	88	93	99	100	128
Operating Margin	-583.3%	42.7%	42.8%	26.2%	32.7%	34.0%	32.8%	32.3%	30.3%	32.7%
Net Profit	(0)	(7)	(54)	(2)	47	24	11	46	11	11
Net Margin	-1377%	-177%	-57.4%	-1.0%	22.0%	9.1%	3.9%	15.2%	3.3%	2.9%
Free Cash Flow	(0)	(4)	(19)	92	114	128	143	129	170	185
Income Tax	-	-	(1)	6	4	3	2	4	5	12

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		215	2,429	2,541	2,891	3,039	3,309	3,702	3,967	4,183
Cash & Equivalents		12	65	70	70	102	100	270	124	90
Goodwill & Int. Ass.		48	488	521	601	652	698	674	735	770
Total Liabilities		92	1,012	1,320	1,535	1,624	1,881	1,992	2,413	2,556
Accounts Payable		3	15	19	23	23	32	23	28	26
Long-Term Debt	-	79	942	1,242	1,419	1,514	1,772	1,869	2,265	2,427
Shareholder's Equity		123	1,417	1,205	1,348	1,413	1,425	1,698	1,532	1,621
LTD/E Ratio		0.64	0.66	1.03	1.05	1.07	1.24	1.10	1.48	1.50

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			-4.1%	-0.1%	1.7%	0.8%	0.3%	1.3%	0.3%	0.3%
Return on Equity			-7.0%	-0.2%	3.7%	1.7%	0.8%	3.0%	0.7%	0.7%
ROIC			-4.2%	-0.1%	1.8%	0.8%	0.4%	1.4%	0.3%	0.3%
Shares Out.	---	---	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6
Revenue/Share	0.00	0.07	1.66	3.53	3.78	3.88	4.05	3.55	3.69	3.98
FCF/Share	(0.01)	(0.06)	(0.33)	1.58	2.01	1.91	2.05	1.49	1.91	1.88

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