



Gladstone Land Corporation (LAND)

Updated August 28th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	1.4%	Market Cap:	\$826 M
Fair Value Price:	\$16	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	09/21/22
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date:	09/30/22
Dividend Yield:	2.3%	5 Year Price Target	\$23	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	F	Rating:	Sell

Overview & Current Events

Gladstone Land Corporation is a real estate investment trust, or REIT, that specializes in the owning and operating of farmland in the U.S. The trust owns about 160 farms, comprising more than 110,000 acres of farmable land. Gladstone's business is made up of three different options available to farmers, all of which are done on a triple-net basis. The trust offers long-term sale leaseback transactions, traditional leases of farmland, and outright purchases of farm properties. Gladstone's portfolio has an appraised value of over \$1.5 billion, and the stock trades with a market capitalization of \$826 million. The trust went public in early 2013 after having been founded in 1997.

Gladstone reported second quarter earnings on August 9th, 2022, and results were weaker than expected on both the top and bottom lines. The company noted funds-from-operations, or FFO, per-share of 13 cents, which missed expectations by a penny. It was also down from 19 cents in the year-ago period. Revenue was \$20.29 million, which was \$500k shy of estimates.

Estimated NAV ended the quarter at \$15.60, up from \$15.54 at the end of the March quarter.

Cash flow from operations of \$11.8 million for Q2, which was \$4.2 million higher than Q1, primarily due to a decrease in the amount of cash payments made for interest and related fees. The portfolio value rose 1.7% from the prior quarter, and now stands at \$1.5 billion.

We now see 71 cents in FFO-per-share for this year following Q2 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	\$0.57	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.57	\$0.66	\$0.70	\$0.71	\$1.00
DPS	---	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.54	\$0.55	\$0.58
Shares¹	2.8	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	35	45

Gladstone's growth has been irregular since it went public in 2013, although that growth has settled down a bit recently. From 2016 to 2018, Gladstone produced just over \$0.50 in AFFO-per-share annually, which is below where we see long-term earnings potential after recent acquisitions. With margins once again moving in the right direction, we think Gladstone can grow at 7% annually over the long-term. Acquisitions and rent escalations are likely to be the only sources of AFFO growth in the coming years, as has been the case for some time.

Growth in the trust's portfolio will drive higher rental revenues, but Gladstone continues to suffer from relatively high funding costs. It issues preferred stock with coupons in the mid-to-high single-digits, and issues common stock that has not only an implied cost of a higher share count, but also a dividend yield of ~2%. With capitalization rates in the mid-single digits, it is very difficult for Gladstone to issue such expensive capital and then profitably invest it in new properties. Given this, Gladstone must tightly control operating expenses to move the needle on a per-share basis, which it has struggled to accomplish at times in the past. We see this as continuing for the foreseeable future unless it finds a cheaper way to fund acquisitions. We note recent financing activity has been completed at more favorable rates, given that the share price has moved much higher, which should help boost the trust's margins further in the years to

¹ Share count 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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come. We also note this can turn quickly with market rates and the trust's share price. With the stock highly overvalued in our view, we see common share issuances as a favorable way to raise funds at the moment. Indeed, the stock is nearly double NAV, so issuing common shares is quite efficient for Gladstone.

The dividend was raised fractionally most recently as Gladstone appears to have hit the maximum dividend it can pay until AFFO-per-share increases. The most recent increase was just 0.4%, and while the dividend increase streak is now up to nine years, the dividend is very little changed from a few years ago.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	100.7	49.3	25.8	18.9	22.0	24.8	21.2	21.6	32.3	33.8	23.0
Avg. Yld.	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	2.4%	2.3%	2.5%

Gladstone's price-to-AFFO has been very high in recent years and sits at 33.8 today. We see fair value, given its projected growth and maxed out dividend, at 23 times AFFO. That implies a strong annual headwind to total returns should the stock revert to this valuation.

The yield is 2.3% today and we see it rising over time as the valuation moderates from today's level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

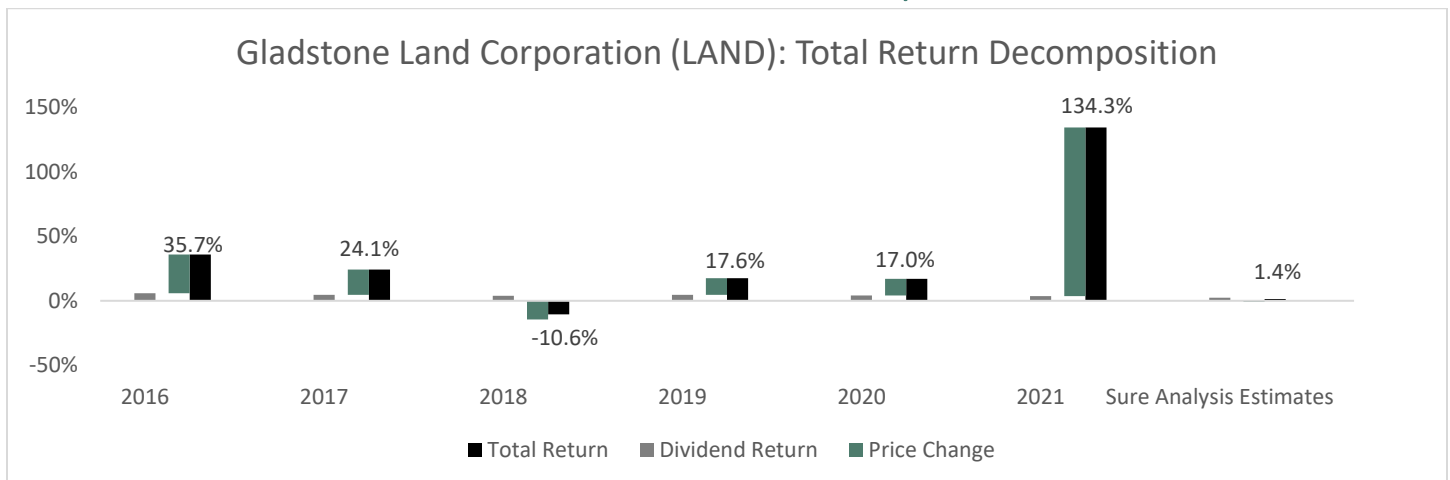
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	144%	118%	93%	93%	104%	93%	82%	77%	77%	58%

Gladstone offers farmers a diverse portfolio of high-quality properties, but it doesn't necessarily have a competitive advantage. Recessions may hurt the trust's earnings as farmers that operate on low margins may struggle if a downturn occurs. Weather is another risk factor for Gladstone and its farmers, as crop destruction can occur for a variety of reasons. The dividend is now less stretched as it is 77% of AFFO-per-share for this year.

Final Thoughts & Recommendation

While we like the steady nature of Gladstone's rental income, the stock is far too expensive, and growth too low. We forecast total annual returns of 1.4%, consisting of the dividend yield of 2.3% and strong growth of 7%, more than offset by a 7.4% headwind from the valuation. Given the very high price compared to our estimate of fair value, we are reiterating Gladstone at a sell 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	3	4	7	12	17	25	37	41	57	75
Gross Profit	3	4	7	11	17	24	35	38	55	73
Gross Margin	96.5%	97.0%	94.0%	93.3%	95.5%	94.7%	94.4%	93.9%	96.8%	96.6%
SG&A Exp.	1	2	3	3	4	4	5	5	8	10
D&A Exp.	0	1	2	3	5	7	9	13	17	27
Operating Profit	2	2	2	5	7	11	12	19	28	32
Operating Margin	60.6%	37.4%	29.5%	42.3%	42.2%	45.3%	33.0%	47.4%	48.5%	42.1%
Net Profit	1	(1)	(0)	1	0	(0)	3	2	5	3
Net Margin	17.7%	-30.3%	-1.7%	4.8%	2.6%	-0.1%	7.2%	4.3%	8.6%	4.6%
Free Cash Flow	1	(1)	1	2	(1)	1	(12)	9	8	26
Income Tax	0	2	0	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	41	94	152	229	334	462	565	817	1,067	1,352
Cash & Equivalents	1	16	3	3	2	3	15	14	9	17
Inventories	---	---	---	---	---	2	---	---	---	---
Goodwill & Int. Ass.	0	0	1	2	2	5	6	5	4	4
Total Liabilities	33	45	92	151	246	344	384	538	683	762
Accounts Payable	1	1	2	3	3	7	9	10	9	11
Long-Term Debt	31	43	86	142	207	301	336	482	624	668
Shareholder's Equity	8	49	60	78	77	110	176	277	384	587
LTD/E Ratio	3.79	0.89	1.44	1.82	2.70	2.74	1.91	1.74	1.63	1.14

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%	0.3%	0.5%	0.3%
Return on Equity	7.7%	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%	0.8%	1.5%	0.7%
ROIC	1.7%	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%	0.3%	0.6%	0.3%
Shares Out.	2.8	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2
Revenue/Share	0.56	0.65	1.05	1.38	1.73	2.08	2.37	2.08	2.56	2.48
FCF/Share	0.19	(0.20)	0.13	0.17	(0.14)	0.11	(0.79)	0.46	0.38	0.86

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

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