



Safehold Inc. (SAFE)

Updated August 6th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$40.7	5 Year CAGR Estimate:	15.6%	Market Cap:	\$2.5B
Fair Value Price:	\$45.5	5 Year Growth Estimate:	11.9%	Ex-Dividend Date:	09/29/22 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	10/15/22 ²
Dividend Yield:	1.7%	5 Year Price Target	\$80	Years Of Dividend Growth:	5
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Buy

Overview & Current Events

Safehold issued its initial public offering on June 22, 2017 with iStar as its manager and primary investor. To this day, iStar remains the majority shareholder, though it is limited by statute to only controlling 42% of the voting stock for corporate governance purposes. Safehold is a ground lease real estate investment trust (i.e., REIT) that aspires to revolutionize the real estate industry by providing a more capital efficient way for businesses to own buildings for their businesses. The trust engages in long-term sale and leasebacks of land underneath commercial properties across the United States and is the only REIT focused entirely on ground leases to support real estate investment and development.

On August 03, Safehold released second-quarter results. Q2 earnings per share increased 32% to \$0.37 year-over-year. Revenue increased 47% to \$64.9 million year-over-year. During the quarter, Safehold closed \$381 million of new originations, making the total portfolio to \$5.9 billion. The company's portfolio generated annualized in-place cash rent of \$178 million with an annualized yield of 5.1% and an inflation-adjusted yield of 5.6%. The company also reported increase in UCA by an estimated \$543 million in Q2, making the total UCA to an estimated \$9.9 billion.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	---	---	---	---	---	\$0.33	\$1.15	\$1.20	\$1.36	\$1.53	\$1.77	\$2.61
NAV/S	---	---	---	---	---	\$19.57	\$19.44	\$28.08	\$44.56	\$73.90	\$45.53	\$80.00
DPS	---	---	---	---	---	\$0.30	\$0.60	\$0.62	\$0.64	\$0.68	\$0.71	\$0.90
Shares³	---	---	---	---	---	18.2	18.3	47.8	53.2	56.6	62.2	68.0

Since the IPO a mere five years ago, Safehold has grown the portfolio by a whopping 11x and continues to generate robust growth. With an annualized yield of 5.4% and weighted average rent coverage of 3.3x on its investments, the REIT generates an attractive combination of profitability and safety. In 2022, the analyst consensus forecasts revenue to grow by 27.9%. Over the next five years, we forecast an annualized net asset value (NAV) per share growth rate of 11.9% given that Safehold is the leader in a massive total addressable market estimated to be \$7 trillion and its NAV per share has suffered from rising interest rates which we expect to moderate over time. We expect the dividend per share to grow at a solid rate as well, driven by growth in the NAV/share and FFO/share as management will be needing to retain cash flow to help fuel their ambitious growth plans.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/NAV	---	---	---	---	---	0.91	0.99	1.42	1.62	1.46	0.89	1.00
Avg. Yld.	---	---	---	---	---	1.7%	3.1%	1.6%	0.9%	0.9%	1.7%	1.1%

¹ Estimate

² Estimate

³ 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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Given that Safehold is growing rapidly and enjoys a massive growth runway, it certainly deserves to trade in-line with its NAV. While it deserves some credit given that it is the early mover and industry leader, it lacks any meaningful moat and therefore we expect competition to increase in the coming years. Eventually, this will reduce growth and reduce profit margins. Therefore, we assign a fair value Price to NAV multiple of 1x, but given the current multiple is just 0.89, we see a sizable tailwind in the years to come from multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	91%	52%	52%	47%	46%	40%	34%

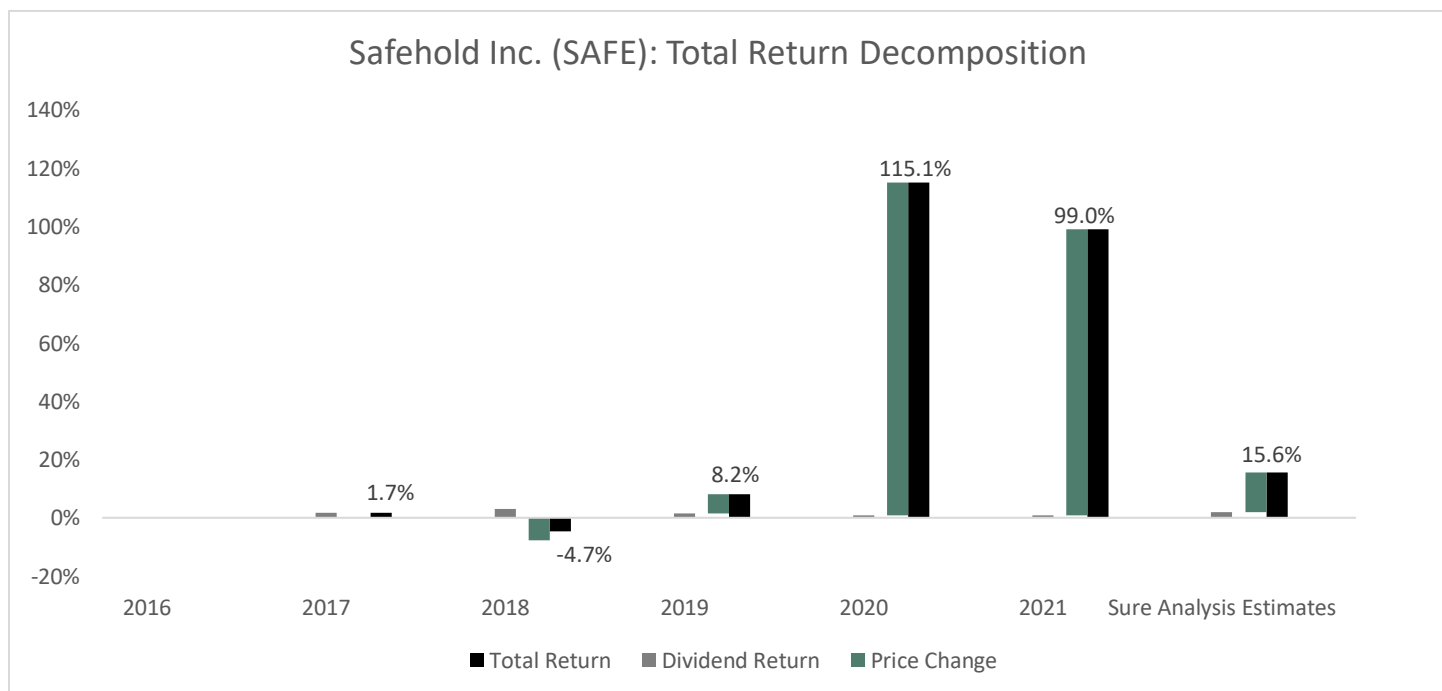
Safehold is an early mover in the sale and leaseback ground lease sector. As such it currently benefits from offering innovative and unique lease products that give it a huge growth runway and attractive profit margins. However, we see few barriers to entry in the space and therefore see no durable competitive advantage for the company.

On the other hand, ground leases by their very nature are very conservative and Safehold's approach is no exception. The terms are extremely long (sometimes up to 99 years long), rent coverage is over 3x, and the loan to value is at a conservative level. As a result, Safehold is very recession resistant, and we fully expect its cash flows to remain very stable through all economic environments. The dividend is also quite safe as the payout ratio is quite low and we expect the dividend to grow increasingly safe over time as the REIT continues to scale and reduces its payout ratio even further.

Final Thoughts & Recommendation

Safehold is primarily a growth stock at this point, while the low dividend yield is merely a nice addition that enables it to enjoy the tax benefits of a REIT. Combining the 11.9% expected annualized growth rate, the 1.7% dividend yield, and 2.4% annualized tailwind from expected multiple expansion equates to an expected annualized return of 15.6% over the next half decade. As a result, we rate the stock a Buy and view it as an attractive growth at a reasonable price investment, especially on dips.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	---	19	22		50	93	155	187
Gross Profit	---	---	---	18	21		48	91	153	184
Gross Margin	---	---	---	98.8%	96.0%		96.8%	97.1%	98.4%	98.6%
SG&A Exp.	---	---	---	2	0		11	14	23	29
D&A Exp.	---	---	---	3	4		12	12	12	12
Operating Profit	---	---	---	13	15		28	67	121	146
Operating Margin	---	---	---	69.7%	68.3%		57.0%	71.6%	77.7%	78.1%
Net Profit	---	---	---	5	7		12	28	59	73
Net Margin	---	---	---	28.8%	30.4%		23.6%	29.7%	38.1%	39.1%
Free Cash Flow	---	---	---	5	5		14	(1,367)	(438)	(1,221)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	---	144	156	729	980	2,567	3,209	4,516
Cash & Equivalents	---	---	---	0	-	168	16	23	57	30
Accounts Receivable	---	---	---	7	12	4	23	58	93	117
Goodwill & Int. Ass.	---	---	---	0	33	139	263	243	242	224
Total Liabilities	---	---	---	0	2	373	622	1,473	1,828	2,831
Accounts Payable	---	---	---		1	1				
Long-Term Debt	---	---	---	-	-		544	1,373	1,685	2,698
Shareholder's Equity	---	---	---	144	154	356	355	1,092	1,379	1,682
LTD/E Ratio	---	---	---	-	-		1.53	1.26	1.22	1.60

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---		4.4%		2.1%	1.6%	2.1%	1.9%
Return on Equity	---	---	---		4.4%		3.3%	3.8%	4.8%	4.8%
ROIC	---	---	---		4.4%		2.2%	1.6%	2.1%	2.0%
Shares Out.	---	---	---							
Revenue/Share	---	---	---	1.02	1.20		2.73	3.01	3.07	3.45
FCF/Share	---	---	---	0.28	0.30		0.74	(44.07)	(8.65)	(22.54)

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

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