



# STAG Industrial (STAG)

Updated August 26<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	9.4%	<b>Market Cap:</b>	\$5.9 B
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	8/30/2022
<b>% Fair Value:</b>	95%	<b>5 Year Valuation Multiple Estimate:</b>	1.0%	<b>Dividend Payment Date:</b>	9/15/2022
<b>Dividend Yield:</b>	4.4%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 559 buildings across 40 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$5.9 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 53% of the tenants are publicly rated and 31% of the tenants are rated "investment grade." The company typically does business with established tenants to reduce risk.

In late July, STAG Industrial reported (7/27/22) financial results for the second quarter of fiscal 2022. Core FFO grew 18% over the prior year's quarter thanks to the sustained strength of the REIT's tenants and material hikes in rent rates. Core FFO per share grew at a slower rate (8%), from \$0.48 to \$0.52, due to the issuance of new units. Net operating income grew 19% over the prior year's quarter while the occupancy rate improved to 98.1%. STAG Industrial is facing a headwind due to the pandemic. However, the effect of the pandemic on the REIT has been limited so far thanks to the high credit profile of its tenants. The REIT has collected essentially all its rental income in the last five quarters. During the second quarter, STAG Industrial acquired 9 buildings for \$165.4 million, at a capitalization rate of 5.2%. We expect the REIT to continue to recover from the downturn caused by the pandemic.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>FFO</b>	\$1.25	\$1.44	\$1.33	\$1.42	\$1.43	\$1.70	\$1.80	\$1.84	\$1.89	\$2.06	<b>\$2.20</b>	<b>\$2.81</b>
<b>DPS</b>	\$1.07	\$1.20	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.43	\$1.44	\$1.45	<b>\$1.46</b>	<b>\$1.51</b>
<b>Shares<sup>1</sup></b>	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	150.5	173.7	<b>185.0</b>	<b>320.0</b>

STAG Industrial has grown its FFO per share at a 5.7% average annual rate over the last decade and at a 7.6% average annual rate over the last five years. The U.S. industrial market is more than \$1 trillion in size and STAG Industrial still has a market share that is less than 1% of its target market, which includes the top 60 markets of the country. Therefore, the REIT has ample room to continue to grow for years. As STAG Industrial has begun to recover from the pandemic, along with the economy, we expect it to grow its FFO per share around its historical pace in the upcoming years. If the REIT grows its FFO per share at a 5.0% annual rate, its FFO per share will grow from \$2.20 this year to \$2.81 in 2027.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg P/FFO</b>	14.4	14.2	18.4	13.0	16.7	16.4	14.5	16.0	15.6	18.6	<b>15.0</b>	<b>15.8</b>
<b>Avg. Yld.</b>	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	5.5%	4.9%	4.9%	3.8%	<b>4.4%</b>	<b>3.4%</b>

<sup>1</sup> In millions.

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STAG Industrial is currently trading at a P/FFO ratio of 15.0, which is lower than its historical average of 15.8. If the stock trades at its average valuation level in five years, it will enjoy a 1.0% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	78.9%	77.7%	76.2%	70.4%	66.4%	53.8%

STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 5.2 years and about half of the leases maturing after the end of 2025. Thus, the cash flows of the REIT can be considered fairly reliable under normal business conditions. STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a 4.4% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years.

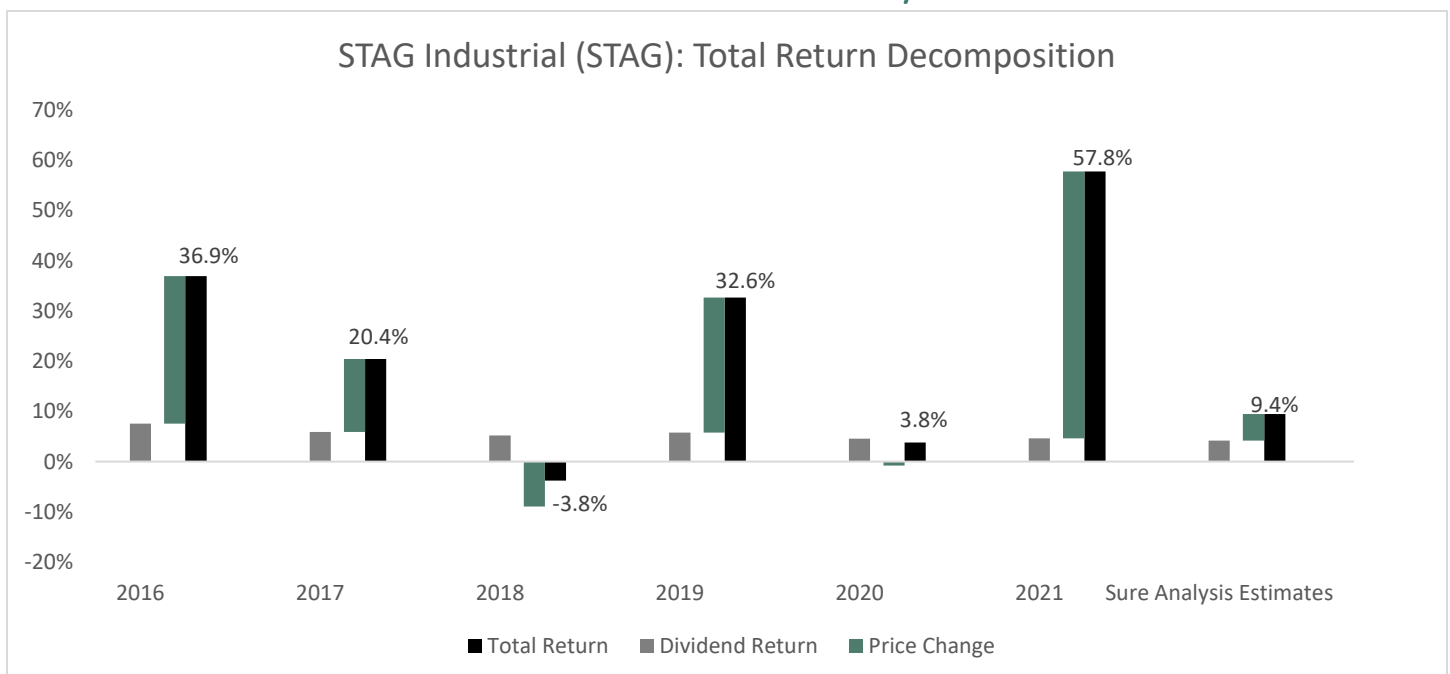
On the other hand, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than quadrupled, from 42 million in 2013 to 183 million now. While the dividend per share has risen only 20% since 2013, the annual amount paid has more than tripled, from \$76 million in 2013 to \$257 million in the last 12 months. As a result, the financial burden of the dividend on the REIT has increased.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. On the bright side, the pandemic has hardly affected the performance of STAG Industrial, mostly thanks to the swift recovery of the economy amid huge fiscal stimulus packages.

## Final Thoughts & Recommendation

STAG Industrial has proved markedly resilient to the pandemic, partly thanks to the unprecedented stimulus packages of the government. We expect the stock to offer a 9.4% average annual return over the next five years thanks to 5.0% growth, its 4.4% dividend and a 1.0% valuation tailwind. We thus maintain our hold 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>	84	134	174	219	250	301	351	406	483	562
<b>Gross Profit</b>	71	110	140	176	201	243	282	331	394	454
<b>Gross Margin</b>	84.7%	82.1%	80.8%	80.5%	80.5%	80.8%	80.3%	81.5%	81.5%	80.8%
<b>SG&amp;A Exp.</b>	15	18	26	29	33	33	34	36	40	49
<b>D&amp;A Exp.</b>	43	71	88	110	125	155	172	190	219	241
<b>Operating Profit</b>	14	24	26	37	43	59	80	109	139	167
<b>Op. Margin</b>	16.9%	18.3%	15.1%	16.8%	17.0%	19.6%	22.9%	26.9%	28.8%	29.7%
<b>Net Profit</b>	(6)	6	(4)	(27)	35	31	93	49	202	192
<b>Net Margin</b>	-7.7%	4.1%	-2.1%	-12.5%	13.8%	10.4%	26.5%	12.1%	41.8%	34.2%
<b>Free Cash Flow</b>	(52)	8	10	36	46	66	87	28	179	176

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1005	1270	1629	1902	2186	2681	3103	4165	4,693	5,833
<b>Cash &amp; Equivalents</b>	19	7	24	12	12	25	8	9	16	19
<b>Accounts Receivable</b>	9	14	17	21	25	34	42	58	78	94
<b>Goodwill &amp; Int. Ass.</b>	5	---	248	276	295	313	342	475	500	568
<b>Total Liabilities</b>	516	596	738	1044	1119	1270	1433	1801	1,922	2,440
<b>Accounts Payable</b>	12	19	22	26	35	43	46	54	70	76
<b>Long-Term Debt</b>	479	556	686	980	1036	1174	1326	1645	1,703	2,218
<b>Shareholder's Equity</b>	359	464	725	683	882	1214	1539	2231	2,641	3,328
<b>LTD/E Ratio</b>	1.12	0.92	0.79	1.19	1.01	0.86	0.82	0.71	0.63	0.67

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	-0.8%	0.5%	-0.3%	-1.6%	1.7%	1.3%	3.2%	1.4%	4.6%	3.7%
<b>Return on Equity</b>	-2.5%	1.3%	-0.6%	-3.9%	4.4%	3.0%	6.8%	2.6%	8.3%	6.4%
<b>ROIC</b>	-0.8%	0.5%	-0.3%	-1.6%	1.8%	1.3%	3.3%	1.4%	4.8%	3.8%
<b>Shares Out.</b>	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	150.5	173.7
<b>Revenue/Share</b>	3.36	3.16	3.21	3.30	3.53	3.35	3.38	3.23	3.24	3.43
<b>FCF/Share</b>	1.92	1.95	1.79	1.84	1.92	1.80	1.91	0.22	1.23	1.07

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

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