



National Retail Properties (NNN)

Updated November 15th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$44.8	5 Year CAGR Estimate:	5.7%	Market Cap:	\$8.0B
Fair Value Price:	\$43.7	5 Year Growth Estimate:	1.3%	Ex-Dividend Date:	01/28/23 ¹
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	02/15/23 ²
Dividend Yield:	4.9%	5 Year Price Target	\$46	Years of Dividend Growth:	21
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

National Retail Properties is a REIT that owns ~3,000 single-tenant, net-leased retail properties across the United States. It is focused on retail customers because they are much more likely to accept rent hikes in order to avoid switching locations and losing their customer base. Thanks to this strategy, National Retail has offered consistent growth with markedly low volatility. It is also characterized by very high occupancy rates; its 15-year low occupancy rate is 96% and it typically ranges between 98%-99%.

National Retail reported Q3 earnings on 11/02/22. NNN maintained high occupancy levels at 99.4%, with a weighted average remaining lease term of 10.4 years as compared to 99.1% at the end of Q2 and 99.0% at the end of 2021. NNN invested \$223.1 million in property investments, including the acquisition of 52 properties with an aggregate 613,000 square feet of gross leasable area at an initial cash yield of 6.3%. The REIT sold 8 properties for \$21.2 million producing \$5.9 million of gains on sales. NNN raised \$97.1 million net proceeds from the issuance of 2,101,476 common shares and maintained a sector leading 14 year weighted average debt maturity for its fixed rate debt.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$1.74	\$1.93	\$2.08	\$2.22	\$2.35	\$2.52	\$2.65	\$2.76	\$2.59	\$2.86	\$3.12	\$3.32
DPS	\$1.56	\$1.60	\$1.65	\$1.71	\$1.78	\$1.86	\$1.95	\$2.06	\$2.07	\$2.10	\$2.20	\$2.73
Shares³	115.8	122	132.2	141	147.2	153.6	161.6	171.7	175.3	175.6	178.7	195

National Retail Properties has more than doubled its FFO since 2011, but it has also significantly increased its share count in order to fund its acquisitions of properties. As a result, the REIT has grown its FFO per share at a mid-single digit rate per year on average since 2011. While the impact of dilution is noticeable, the dilution also has another, less obvious effect: it has greatly increased the financial burden of the dividend on the REIT.

We believe that growth will slow moving forward as investment spreads compress, and the law of large numbers makes it increasingly challenging to move the needle with acquisitions. The trust's high level of occupancy should afford it low-single-digit levels of revenue growth, while slightly increasing margins should continue to see it growing FFO-per-share despite the ever-rising share count. The bulk of National Retail's FFO-per-share growth will come from net new property acquisitions.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	14.9	13.2	16.4	15.4	16.7	14.8	16.1	19.2	15.4	16.5	14.4	14.0
Avg. Yld.	6.00%	6.30%	4.80%	5.00%	4.40%	5.00%	4.50%	3.90%	5.20%	4.50%	4.9%	5.9%

¹ Estimate

² Estimate

³ In millions

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Using expected 2022 FFO numbers, National Retail Properties is trading at a price-to-FFO ratio of 14.4. The trust's 10-year average price-to-FFO ratio is 14, and, while recent multiples have been far higher due to low interest rates and strong results, we believe that current headwinds and rising interest rates justify a lower valuation. Therefore, we are placing 14 times FFO as our fair value estimate. Accordingly, we believe that slight multiple compression will provide a small headwind to the trust's total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	90%	83%	79%	77%	76%	74%	74%	75%	80%	73%	71%	82%

National Retail's payout ratio is being maintained near three-quarters of FFO, and we believe it will stay there for the foreseeable future. Given this, the dividend is fairly safe at this point with the trust's rising earnings. On the other hand, National Retail Properties is significantly impacted by recessions. In the Great Recession, its funds from operations per share plunged 34%, from \$1.99 in 2008 to \$1.31 in 2010. Nevertheless, given that the financial crisis was triggered by the bubble in the housing market, the performance of the REIT in that crisis was satisfactory.

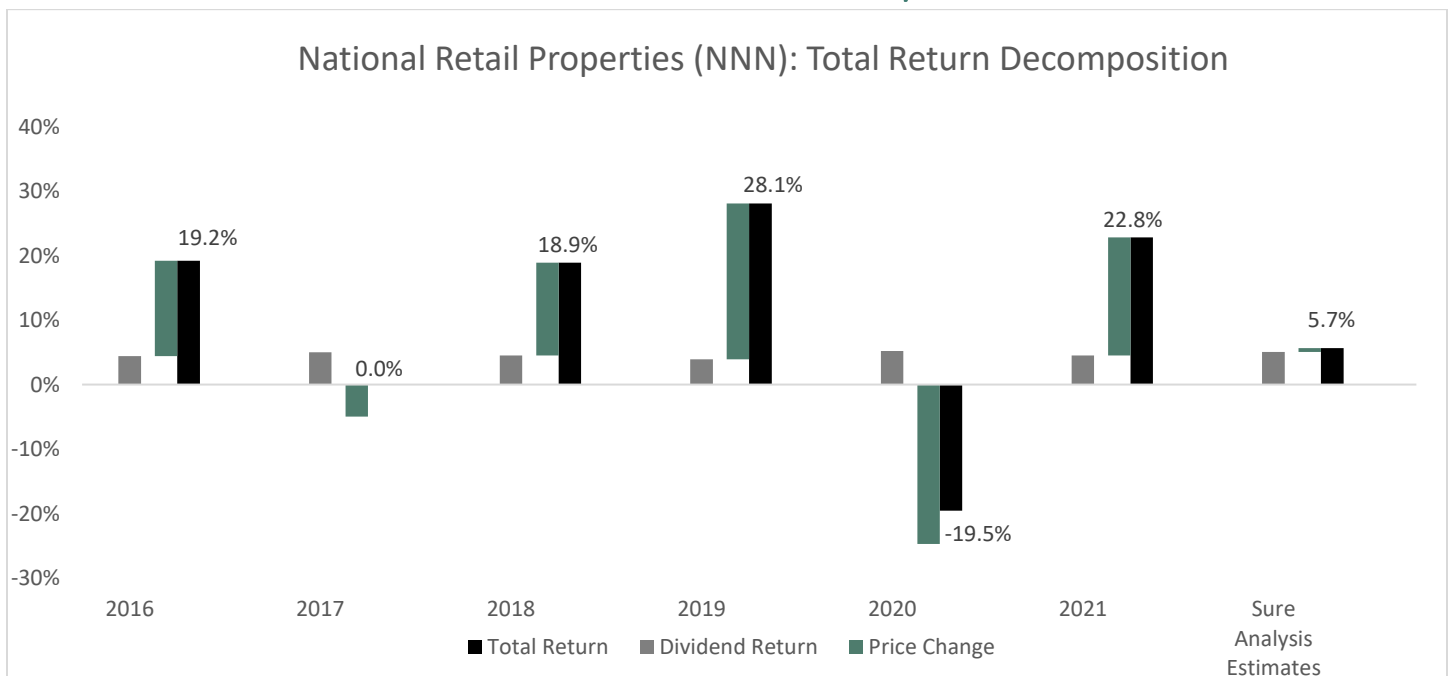
However, investors should keep in mind that its downside potential will be significant whenever the next recession shows up, particularly given its current valuation. The trust lacks any durable competitive advantages, though its scale and business network are gradually growing over time, which could give it increasing pricing power and economies of scale.

Final Thoughts & Recommendation

National Retail Properties is an attractive dividend growth stock given its 4.9% dividend yield backed by a strong balance sheet, well-diversified portfolio, impressive dividend growth streak, and lengthy growth runway.

On the other hand, it only offers estimated 5.7% annualized total returns over the next half decade due to our expectations of slowing growth in the short-term. As a result, we rate it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	352	394	435	483	534	585	623	670	661	726
Gross Profit	334	375	416	463	513	562	598	643	632	698
Gross Margin	95.0%	95.3%	95.6%	95.9%	96.1%	96.0%	96.0%	95.9%	95.7%	96.1%
SG&A Exp.	32	31	33	35	37	34	34	38	38	45
D&A Exp.	75	100	116	135	149	174	174	189	197	205
Operating Profit	210	245	267	294	327	354	389	416	397	448
Operating Margin	59.7%	62.2%	61.5%	60.8%	61.3%	60.6%	62.5%	62.1%	60.2%	61.7%
Net Profit	142	160	191	198	240	265	292	299	229	290
Net Margin	40.4%	40.7%	43.8%	41.0%	44.9%	45.3%	47.0%	44.6%	34.6%	39.9%
Free Cash Flow	228	274	297	341	415	422	472	502	450	568
Income Tax	(7)	0	(0)	10						

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,988	4,455	4,916	5,460	6,334	6,561	7,103	7,435	7,638	7,751
Cash & Equivalents	2	1	11	14	295	1	114	1	267	171
Accounts Receivable	3	4	3	3	3	4	4	3	4	3
Goodwill & Int. Ass.	45	70	78	72	65	51	66	76	70	67
Total Liabilities	1,690	1,676	1,832	2,118	2,417	2,720	2,949	3,103	3,319	3,849
Long-Term Debt	1,587	1,570	1,730	1,976	2,312	2,580	2,851	2,988	3,221	3,746
Shareholder's Equity	2,009	2,202	2,508	2,767	2,997	3,208	3,522	3,987	3,974	3,902
LTD/E Ratio	0.69	0.57	0.56	0.59	0.59	0.67	0.69	0.69	0.75	0.96

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.8%	3.8%	4.1%	3.8%	4.1%	4.1%	4.3%	4.1%	3.0%	3.8%
Return on Equity	7.2%	7.6%	8.1%	7.5%	8.3%	8.5%	8.7%	8.0%	5.7%	7.4%
ROIC	3.9%	3.9%	4.2%	3.9%	4.1%	4.2%	4.4%	4.2%	3.1%	3.8%
Shares Out.	115.8	122.0	132.2	141.0	147.2	153.6	161.6	171.7	175.3	175.6
Revenue/Share	3.22	3.28	3.49	3.59	3.69	3.91	3.98	4.06	3.84	4.16
FCF/Share	2.09	2.29	2.38	2.54	2.87	2.82	3.02	3.04	2.61	3.25

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

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