One Liberty Properties (OLP)

Updated November 14th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$513 M
Fair Value Price:	$25	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	12/17/2022
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	01/05/2023
Dividend Yield:	7.5%	**5 Year Price Target:**	$29	**Years of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

One Liberty Properties is a self-administered, self-managed real estate investment that that acquires, owns, and manages a diversified portfolio of retail, industrial, office and other properties. Almost all of One Liberty's leases are net leases, where the tenant is responsible for real estate taxes, insurance, and ordinary maintenance and repairs. One Liberty was incorporated in 1982 and became a public trust in 1983. One Liberty trades on the NYSE under the ticker symbol OLP and is headquartered in Great Neck, New York. OLP has a market capitalization of $513 million.

One Liberty's current portfolio comprises 119 properties in 31 states. The portfolio is currently at 98.4% occupancy. The trust's contractual rental income currently sits at $69.6 million. Industrial properties account for 62.2% of contractual rental income, with retail at 26.6%, health & fitness at 4.7%, restaurants at 4.1%, and others at 2.4%.

One Liberty Properties reported third quarter 2022 results on November 3rd, for the period ending September 30th, 2022. The trust reported rental income of $21.5 million, compared to $20.3 million in Q3 2021. Adjusted funds from operations was $10.1 million, about flat compared to the same prior year period. Adjusted FFO per share was also flat at $0.48. One Liberty sold one property for $8.3 million. A tenant of three of One Liberty's properties, Cineworld Group, declared bankruptcy.

At quarter end, OLP had $11.6 million of cash and cash equivalents, total assets of $767 million and total debt of $414 million. One Liberty's liquidity was roughly $94.2 million, including $86.2 million available under the credit facility.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	$1.65	$1.75	$1.84	$1.92	$1.99	$2.09	$2.13	$1.98	$1.90	$1.95	***$2.00***	***$2.32***
DPS	$1.34	$1.42	$1.50	$1.58	$1.66	$1.74	$1.80	$1.80	$1.80	$1.80	***$1.80***	***$1.89***
Shares[2]	14.5	15.1	15.7	16.1	16.9	18.1	18.6	19.1	19.6	20.3	***21.1***	***24.0***

One Liberty Properties has grown fairly consistently over the long-term, but in recent years that growth has faltered as AFFO peaked in 2018. Additionally, calculating historic growth culminating in the years affected by the COVID pandemic can potentially be misleading. However, OLP has grown their AFFO on average by 1.9% and -0.4% over the last nine and five years, respectively. Their share count has also grown fairly consistently at roughly 3.8% over the last decade. Given this, we estimate that One Liberty can grow adjusted FFO from here on out at roughly 3.0% annually.

The trust is focusing on reducing their retail exposure and increasing their industrial exposure, which should pay off with the long-term trends in e-commerce and the demand for warehouses and distribution facilities increasing. Year-over-year, since 2016, OLP has reduced the percent of contractual rental income exposed to retail properties and increased the exposure to industrial properties. Additionally, a portfolio of industrial properties is likely to be valued at a higher multiple than a portfolio of retail properties, especially restaurants and theatres.

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[1] Estimate

[2] In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	11.3	12.7	11.8	11.9	11.7	11.6	12.0	14.2	10.0	14.3	***11.9***	***12.5***
Avg. Yld.	7.1%	6.2%	6.7%	6.7%	7.0%	7.0%	7.0%	6.4%	10.0%	6.7%	***7.5%***	***6.5%***

The trust's P/AFFO of 11.9 is not far off from its nine- and five-year historic average valuations of 12.1 and 12.4 times AFFO. With an increasing portfolio of industrial properties, the multiple is likely to expand, and we believe the trust is undervalued right here. We see fair value at 12.5 times AFFO, just slightly above its historic valuation average. This implies the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

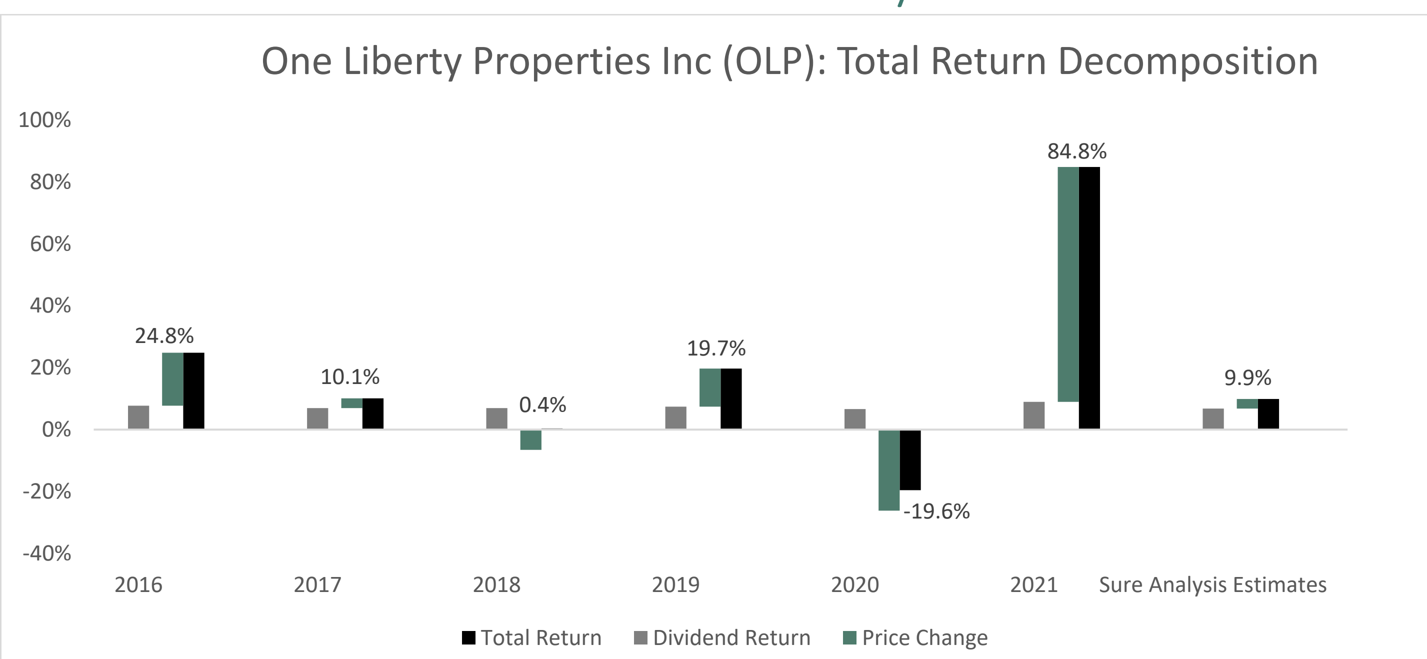
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	81%	81%	82%	82%	83%	83%	85%	91%	95%	92%	***90%***	***82%***

Despite choppy AFFO results year-over-year, One Liberty has maintained a fairly covered dividend payout, until 2019 where the coverage became somewhat under threat with a ratio higher than 90%. The payout ratio today remains about 90%, so it is something to keep an eye on, but if the trust continues executing successfully on their industrial property strategy, we see the payout ratio moderating in the future. The trust's competitive advantage lies in its dedicated management with insider ownership of more than 10%, aligning management with shareholders and, according to the CEO, "dramatically differentiates" the trust from its competitors.

Final Thoughts & Recommendation

One Liberty Properties has struggled to grow adjusted funds from operations in recent years, but it has been successfully pivoting its portfolio from retail-heavy to industrial-heavy which has also caused an increase in the valuation and shares offer practically no margin of safety now. We estimate the trust can grow AFFO by roughly 3.0% annually, combined with a strong 7.5% dividend yield, and the potential for a valuation tailwind. With forecasted annualized total returns of 9.9%, we rate shares as a hold today.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	44	51	60	66	71	76	79	85	82	83
Gross Profit	41	47	56	59	61	65	68	71	68	69
Gross Margin	93.3%	93.1%	92.2%	90.3%	86.9%	85.5%	85.3%	83.4%	83.4%	83.3%
SG&A Exp.	7	8	9	10	11	11	12	12	14	14
D&A Exp.	10	12	14	16	17	20	22	21	22	22
Operating Profit	24	27	32	33	32	32	31	36	31	32
Op. Margin	53.7%	53.9%	52.6%	50.4%	45.7%	42.3%	39.3%	42.3%	38.2%	38.1%
Net Profit	32	18	22	21	24	24	21	18	27	39
Net Margin	73.8%	35.1%	36.6%	31.2%	34.6%	31.8%	26.1%	21.3%	33.5%	47.0%
Free Cash Flow	22	27	32	34	30	44	43	36	35	49

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	481	572	590	646	733	743	781	775	776	753
Cash & Equivalents	15	17	20	13	17	14	15	11	13	16
Goodwill & Int.	16	26	27	29	33	31	27	26	25	21
Total Liabilities	243	322	335	384	442	444	482	483	484	447
Long-Term Debt	226	301	305	349	404	402	448	447	442	408
Total Equity	237	249	254	260	290	297	297	291	291	305
LTD/E Ratio	0.95	1.21	1.20	1.34	1.39	1.35	1.51	1.54	1.52	1.34

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.9%	3.4%	3.8%	3.3%	3.5%	3.3%	2.7%	2.3%	3.5%	5.1%
Return on Equity	14.2%	7.4%	8.8%	8.0%	8.9%	8.2%	7.0%	6.1%	9.4%	13.0%
ROIC	7.2%	3.5%	4.0%	3.5%	3.7%	3.5%	2.9%	2.4%	3.7%	5.4%
Shares Out.	14.5	15.1	15.7	16.1	16.9	18.1	18.6	19.1	19.6	20.3
Revenue/Share	3.01	3.39	3.86	4.09	4.18	4.21	4.26	4.43	4.18	4.08
FCF/Share	1.51	1.78	2.03	2.14	1.78	2.46	2.29	1.90	1.79	2.40

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