



# STORE Capital Corp. (STOR)

Updated November 23<sup>rd</sup>, 2022 by Prakash Kolli

## Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	9.7%	Market Cap:	\$8.98B
Fair Value Price:	\$34	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/30/22 <sup>1</sup>
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	01/18/23
Dividend Yield:	5.1%	5 Year Price Target	\$41	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

## Overview & Current Events

Founded in 2011 and public since 2014, STORE Capital Corp is a real estate investment trust that acquires and manages single tenant operation real estate, or STORE, properties in the US. STORE Capital primarily leases facilities to middle-market and large businesses through long-term, triple-net leases. STORE Capital had 579 customers at end of Q3 2022 and the ten largest customers made up ~17.7% of base rent. The company operates in 49 states and owned 3,035 properties at end of Q3 2022. Service sector customers make up ~64% of rent and 2,423 properties, retail makes up ~15% of rent and 260 properties, and manufacturing makes up ~21% of rent and 329 properties. Approximately 33.9% of rent comes Texas, Illinois, California, Georgia, and Florida. The REIT had total revenue of \$782.7M in 2021.

STORE Capital reported solid Q3 2022 results on November 3<sup>rd</sup>, 2022. Total revenue rose 15.8% to \$236.6M from \$199.1M and net income dropped to \$68.6M from \$75.9M. Diluted AFFO/S increased to \$0.59 from \$0.52. The REIT invested \$284.8M in 50 properties and added 8 new customers in the quarter. The REIT sold 51 properties. The total real estate portfolio was worth ~\$11.6B at end of Q3 with about 94% in commercial leases and 6% in mortgage loans and financings. The average lease has ~13.2 years remaining with only 4.1% of leases expiring in the next five years.

On September 15, 2022, the trust entered a merger agreement with GIC and Blue Owl Capital's Oak Street Real Estate Capital division for about \$32.25 per share at a \$14 billion enterprise value, subject to approvals.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>AFFO/S</b>	---	---	\$1.41	\$1.50	\$1.65	\$1.71	\$1.84	\$1.98	\$1.83	\$2.05	\$2.26	\$2.75
<b>DPS</b>	---	---	\$0.11	\$1.04	\$1.12	\$1.20	\$1.28	\$1.34	\$1.42	\$1.49	\$1.64	\$2.09
<b>Shares<sup>2</sup></b>	---	---	115	140	161	193	221	244	266	270	292	429

STORE Capital's AFFO/share growth has been strong since coming public as it has gone from \$1.41 in 2014 to \$2.05 in 2021 with a one-year dip in 2020. This dip was largely a result of the negative effect of COVID-19 on many of the REIT's clients. After 2021, we are expecting AFFO/S to grow at about 4% annually on average out to 2027, which is slightly lower than the trailing average since 2014. We account for the impact of COVID-19 on REITs and their customers and rent collection. STORE Capital has grown through acquisition and then leasing to medium-to-larger sized customers with rent escalators and senior lease positioning. This has worked well for the company since its IPO in 2014. However, the law of large numbers means that growth will slow. Furthermore, the rising share count will likely keep a lid on AFFO/S growth.

The dividend has grown at rapid clip since 2014 but has slowed in the past two years as the payout ratio has risen but it is still reasonably conservative for a REIT. The rising share count has also increased the cash flow requirement for the dividend. We expect the dividend to grow at about 5% annually on average out to 2027.

<sup>1</sup> Estimated based on prior years. The REIT has not yet announced the dividend for the next quarter.

<sup>2</sup> Share count in millions at annual report date.

*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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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/AFFO	---	---	15.3	15.5	15.0	15.2	15.4	18.8	18.6	16.38	14.1	15.0
Avg. Yld.	---	---	0.5%	4.5%	4.5%	4.6%	4.5%	3.7%	4.2%	4.2%	5.1%	5.1%

STORE Capital's stock price is up since our last report because of the all-cash offer to take the trust private. The REIT is no longer trading on fundamentals but instead on news about the merger. Our fair value multiple for the long haul is 15X, which is slightly below the trailing 10-year average. We have set our AFFO/S estimate to the mid-point of raised guidance for 2022. Our fair value estimate is now \$34. Our 5-year price target is now \$41.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Payout	---	8%	69%	68%	70%	70%	69%	78%	73%	73%	73%	76%

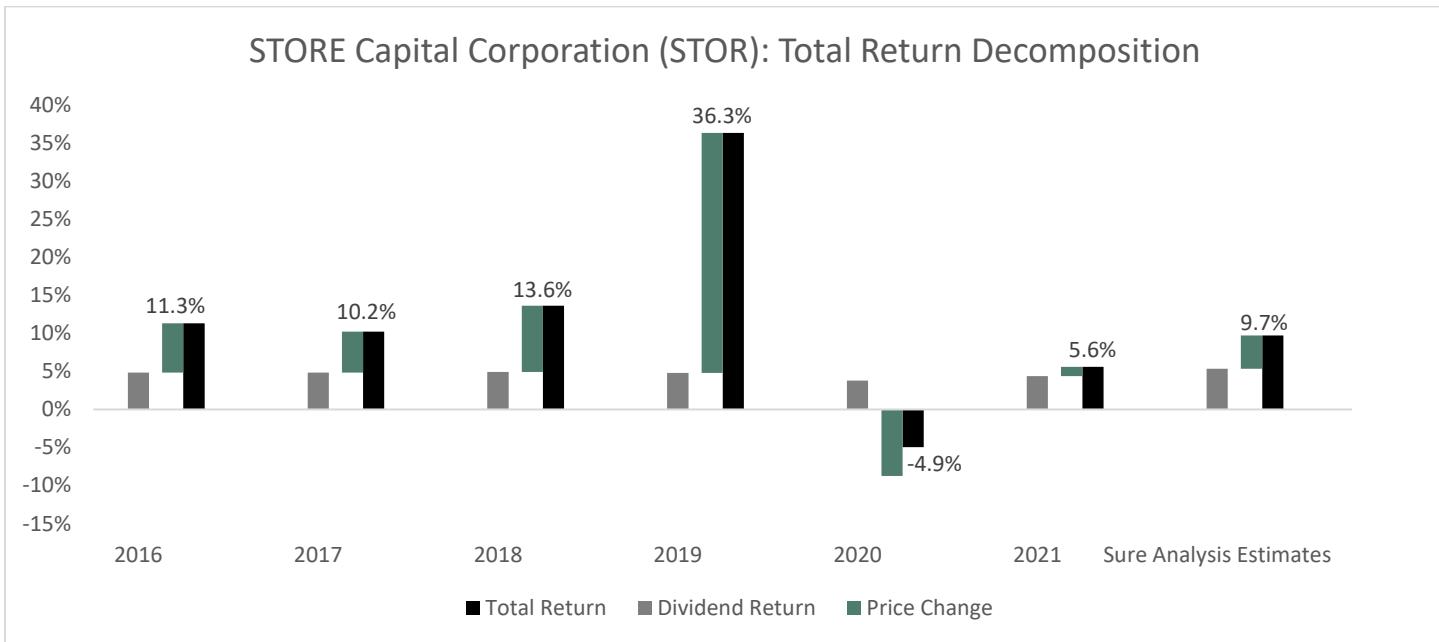
As a net lease REIT, STORE Capital is a defensive stock because its leases have a senior position to other obligations, are long-term, and have built in regular rent escalators. Additionally, the nature of triple net leases is such that the tenant takes care of virtually all the operating costs. Another factor contributing to STORE's safety is the fact that it has achieved tremendous diversification with over 550 customers, over 3,000 properties in 49 states, and 99.5% occupancy. STORE announced that it has become among the very few REITs and the only net lease REIT able to issue AAA-rated notes, an affirmation of the safety of the diverse property portfolio.

The balance sheet is also in decent shape with \$47M in cash and equivalents and \$2,382M in unsecured notes and term loans, \$2,243.2M in non-recourse debt obligations. STORE Capital has a BBB credit rating.

## Final Thoughts & Recommendation

At present, we are forecasting 9.7% total annualized return over the next five years from a dividend yield of 5.1%, 4% EPS growth, and 1.2% P/E multiple expansion. STORE Capital is merging with GIC and Blue Owl Capital's Oak Street Real Estate Capital division for about \$32.25 per share at a \$14 billion enterprise value, subject to approvals. At the current stock price, we rate STORE Capital 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
<b>Revenue</b>	N/A	109	190	285	376	453	541	666	694	783
<b>SG&amp;A Exp.</b>	N/A	14	19	28	35	41	46	54	50	84
<b>D&amp;A Exp.</b>	N/A	31	57	89	120	150	182	222	243	266
<b>Operating Profit</b>	N/A	64	113	167	218	257	309	379	380	415
<b>Operating Margin</b>	N/A	59.0%	59.6%	58.5%	57.9%	56.7%	57.1%	56.9%	54.7%	53.0%
<b>Net Profit</b>	N/A	26	48	84	123	162	217	285	213	268
<b>Net Margin</b>	N/A	24.2%	25.3%	29.4%	32.8%	35.8%	40.1%	42.8%	30.6%	34.2%
<b>Free Cash Flow</b>	N/A	55	103	187	246	309	392	458	432	583
<b>Income Tax</b>	N/A	0	0	0	0	0	1	1	1	1

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	N/A	1786	2883	3911	4942	5900	7114	8,297	9,004	9773
<b>Cash &amp; Equivalents</b>	N/A	62	136	67	54	43	28	100	166	64
<b>Total Liabilities</b>	N/A	1012	1300	1852	2458	2729	3250	3811	3989	4629
<b>Long-Term Debt</b>	N/A	992	1253	1770	2352	2597	3060	3591	3722	4339
<b>Shareholder's Equity</b>	N/A	774	1583	2060	2483	3171	3864	4485	5016	5144
<b>LTD/E Ratio</b>	N/A	1.28	0.79	0.86	0.95	0.82	0.79	0.80	0.74	0.74

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	N/A	1.9%	2.1%	2.5%	2.8%	3.0%	3.3%	3.7%	2.5%	2.9%
<b>Return on Equity</b>	N/A	4.1%	4.1%	4.6%	5.4%	5.7%	6.2%	6.8%	4.5%	5.3%
<b>ROIC</b>	N/A	1.9%	2.1%	2.5%	2.8%	3.1%	3.4%	3.8%	2.5%	2.9%
<b>Shares Out.</b>	N/A	N/A	78	122	149	179	205	220	266	270
<b>Revenue/Share</b>	N/A	0.98	2.43	2.33	2.52	2.53	2.64	2.89	2.75	2.90
<b>FCF/Share</b>	N/A	0.50	1.31	1.53	1.65	1.73	1.91	1.99	1.71	2.16

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

## Disclaimer

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