



# American Assets Trust (AAT)

Updated February 12<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$26	<b>5 Year CAGR Estimate:</b>	15.8%	<b>Market Cap:</b>	\$2.0 B
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	3/8/2023
<b>% Fair Value:</b>	68%	<b>5 Year Valuation Multiple Estimate:</b>	8.2%	<b>Dividend Payment Date:</b>	3/23/2023
<b>Dividend Yield:</b>	5.1%	<b>5 Year Price Target</b>	\$47	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

American Assets Trust (AAT) is a real estate investment trust (REIT) that was formed in 2011 as a successor of American Assets, a privately held company founded in 1967. AAT is headquartered in San Diego, California, and has great experience in acquiring, improving and developing office, retail and residential properties throughout the U.S., primarily in Southern California, Northern California, Oregon, Washington and Hawaii. Its office portfolio and its retail portfolio comprise of approximately 4.0 million and 3.1 million square feet, respectively. AAT also owns more than 2,000 multifamily units and has a market capitalization of \$2.0 billion.

In early February, AAT reported (2/7/23) financial results for the fourth quarter of fiscal 2022. Same-store net operating income grew 5.5% and funds from operations (FFO) per share grew 4% over the prior year's quarter. The positive performance resulted primarily from increased tourism in Hawaii but the REIT decelerated remarkably compared to previous quarters, as it began to face tough comparisons over the strong performance in the prior year's period. As a result, management initiated lackluster guidance for 2023, expecting FFO per share of \$2.16-\$2.30. We note that AAT has beaten the analysts' estimated for 8 consecutive quarters and expect it to post FFO per share around \$2.25. We also note that the REIT appears resilient to high inflation thanks to its ability to raise rental rates significantly every year. AAT announced a 3% dividend raise for this year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO</b>	\$1.55	\$1.63	\$1.77	\$1.85	\$1.92	\$2.09	\$2.19	\$1.89	\$2.00	\$2.34	<b>\$2.25</b>	<b>\$2.74</b>
<b>DPS</b>	\$0.85	\$0.89	\$0.95	\$1.01	\$1.05	\$1.09	\$1.14	\$1.00	\$1.16	\$1.28	<b>\$1.32</b>	<b>\$1.60</b>
<b>Shares<sup>1</sup></b>	57.5	59.9	62.3	63.2	64.1	64.1	70.8	76.1	76.2	76.3	<b>76.4</b>	<b>100.0</b>

AAT pursues growth by acquiring properties in submarkets with favorable supply and demand characteristics, including high barriers to entry. It also redevelops several of its newly-acquired properties in order to enhance their value. In addition, it has a capital recycling strategy, which involves selling properties whose returns seem to have been maximized and buying high-return properties. Thanks to these growth drivers, AAT has grown its adjusted FFO per share at a 4.7% average annual rate over the last decade. Its FFO per share decreased for the first time in a decade in 2020 due to the pandemic but AAT has recovered from this crisis. We expect the REIT to grow its FFO per share at a 4.0% average annual rate over the next five years, close to its historical growth rate.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>P/FFO</b>	20.5	21.4	23.2	22.0	21.2	17.6	20.8	15.9	17.8	13.4	<b>11.6</b>	<b>17.1</b>
<b>Avg. Yld.</b>	2.7%	2.6%	2.3%	2.5%	2.6%	3.0%	2.5%	3.3%	3.3%	4.1%	<b>5.1%</b>	<b>3.4%</b>

AAT is currently trading at a 10-year low price-to-FFO ratio of 11.6, which is much lower than the 10-year average price-to-FFO ratio of 19.4. The somewhat rich historical valuation of AAT has resulted from its consistent growth year after

<sup>1</sup> In millions.

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year, until the onset of the pandemic. In order to be on the safe side, we assume a fair price-to-FFO ratio of 17.1, which is equal to the 5-year average of the stock. If AAT trades at that level in five years, it will enjoy an 8.2% annualized gain in its returns.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	55%	55%	54%	55%	55%	52%	52%	53%	58%	55%	59%	58%

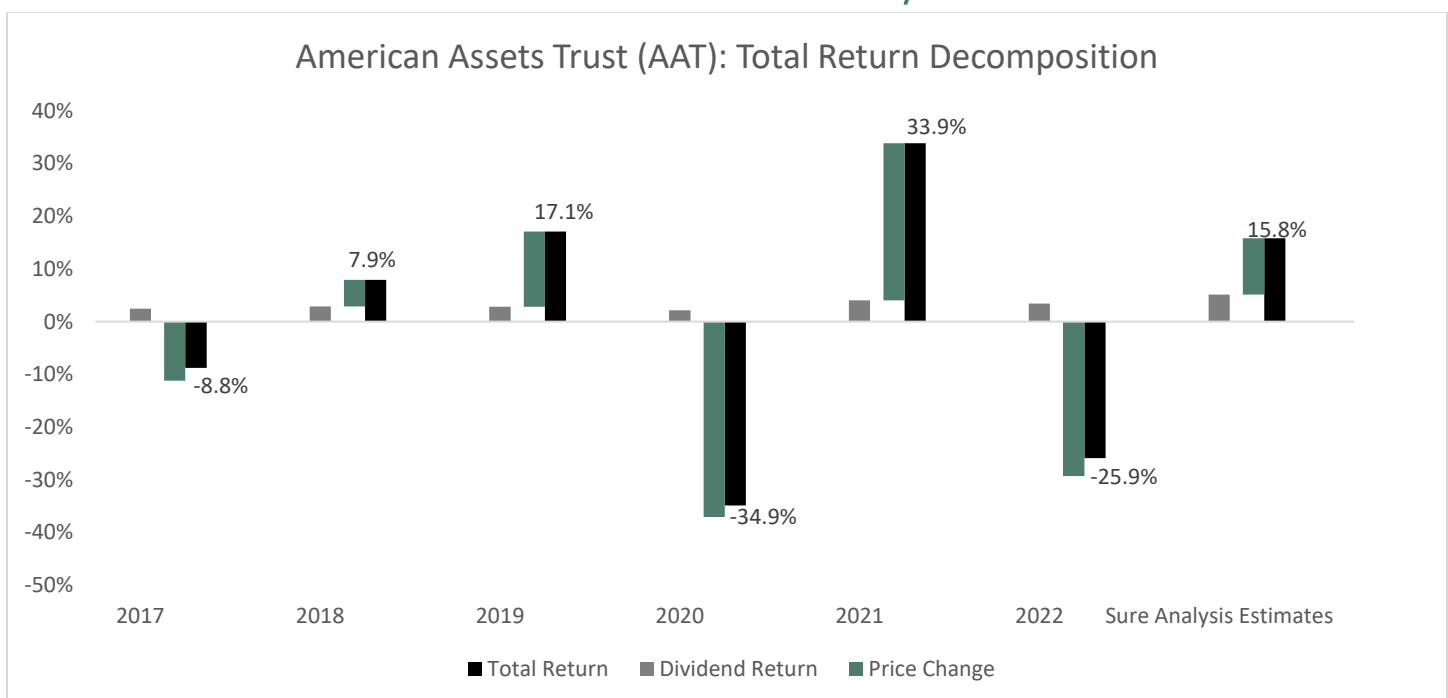
Many of the properties of AAT are located in in-fill locations, where developable land is scarce and zoning regulations significantly restrict new development. Moreover, its submarkets in Southern California, Northern California, Oregon, Washington and Hawaii are characterized by high barriers to entry, which offer the REIT a strong negotiating position with its tenants and enable it to implement material rent hikes every year.

AAT is offering a 10-year high dividend yield of 5.1%. Given the healthy payout ratio of 59% and the reliable growth trajectory of the REIT, the dividend is safe. The only caveat is the material debt load of AAT, which has an interest coverage ratio of only 2.0, much less than our comfort minimum of 3.0. On the bright side, AAT has received investment grade ratings from the major rating agencies. Given the promising growth potential of AAT, we do not expect it to face any problems servicing its debt for the foreseeable future but investors should be aware of this risk factor, which renders the REIT somewhat vulnerable to recessions. AAT was not public in the Great Recession, and hence it has not been tested in a severe recession. AAT cut its dividend by -12% in 2020 due to the pandemic.

## Final Thoughts & Recommendation

AAT has declined -25% over the last 12 months, mostly due to the impact of inflation on its valuation. We view inflation as a temporary headwind and hence we view the stock as attractive. The stock could offer a 15.8% average annual return over the next five years, thanks to 4.0% growth of FFO per share, a 5.1% dividend yield and an 8.2% annualized expansion of the valuation level. The security maintains its buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	255	260	276	295	315	331	367	345	376	423
<b>Gross Profit</b>	165	169	178	187	198	209	235	223	246	270
<b>Gross Margin</b>	64.7%	64.9%	64.4%	63.4%	63.0%	63.3%	64.0%	64.8%	65.5%	63.8%
<b>SG&amp;A Exp.</b>	17	19	20	18	21	23	25	27	30	32
<b>D&amp;A Exp.</b>	67	67	63	71	83	107	96	108	116	123
<b>Operating Profit</b>	81	84	94	98	94	80	114	89	100	115
<b>Operating Margin</b>	31.8%	32.2%	34.2%	33.2%	29.7%	24.0%	31.0%	25.7%	26.6%	27.2%
<b>Net Profit</b>	23	31	54	46	40	27	60	36	37	56
<b>Net Margin</b>	8.9%	12.0%	19.6%	15.5%	12.7%	8.2%	16.4%	10.3%	9.7%	13.2%
<b>Free Cash Flow</b>	37	(39)	(24)	61	98	82	65	63	64	65

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1,832	1,942	1,974	1,987	2,260	2,198	2,790	2,817	3,018	2,988
<b>Cash &amp; Equivalents</b>	49	59	40	45	83	48	99	137	140	50
<b>Accounts Receivable</b>	7	7	8	9	10	9	12	7	7	8
<b>Goodwill &amp; Int. Ass.</b>	33	24	18	12	10	10	34	29	32	64
<b>Total Liabilities</b>	1,146	1,175	1,145	1,148	1,416	1,396	1,497	1,564	1,808	1,802
<b>Accounts Payable</b>	37	51	32	32	38	47	63	59	65	66
<b>Long-Term Debt</b>	1,045	1,063	1,056	1,062	1,325	1,291	1,358	1,407	1,649	1,648
<b>Shareholder's Equity</b>	649	735	800	810	834	803	1,314	1,271	1,239	1,221
<b>D/E Ratio</b>	1.61	1.45	1.32	1.31	1.59	1.61	1.03	1.11	1.33	1.35

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.2%	1.7%	2.8%	2.3%	1.9%	1.2%	2.4%	1.3%	1.3%	1.9%
<b>Return on Equity</b>	3.5%	4.5%	7.0%	5.7%	4.9%	3.3%	5.7%	2.8%	2.9%	4.5%
<b>ROIC</b>	1.3%	1.7%	2.9%	2.4%	2.0%	1.3%	2.5%	1.3%	1.3%	2.0%
<b>Shares Out.</b>	57.5	59.9	62.3	63.2	64.1	64.1	70.8	76.1	76.2	76.23
<b>Revenue/Share</b>	4.43	4.34	4.42	4.67	4.91	5.16	5.18	4.53	4.93	5.54
<b>FCF/Share</b>	0.64	(0.65)	(0.38)	0.97	1.53	1.28	0.93	0.83	0.84	0.86

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

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