



Gladstone Land Corporation (LAND)

Updated February 27th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	9.5%	Market Cap:	\$620 M
Fair Value Price:	\$17	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	03/16/23 ¹
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	03/31/23
Dividend Yield:	3.2%	5 Year Price Target	\$24	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	F	Rating:	Hold

Overview & Current Events

Gladstone Land Corporation is a real estate investment trust, or REIT, that specializes in the owning and operating of farmland in the U.S. The trust owns about 160 farms, comprising more than 110,000 acres of farmable land. Gladstone's business is made up of three different options available to farmers, all of which are done on a triple-net basis. The trust offers long-term sale leaseback transactions, traditional leases of farmland, and outright purchases of farm properties. Gladstone's portfolio has an appraised value of over \$1.5 billion, and the stock trades with a market capitalization of \$620 million. The trust went public in early 2013 after having been founded in 1997.

Gladstone reported fourth quarter and full-year earnings on February 21st, 2023, and results were somewhat better than expected. FFO-per-share was 19 cents, while revenue was up 2.4% year-over-year to \$24.79 million. That was about \$580k ahead of estimates.

Total cash lease revenues increase \$668k, which was driven by participation rents of \$4.7 million, up from \$3 million a year ago. Higher participation rents were driven by a decline in fixed base cash rents of \$1 million.

NAV per share was \$17.08 at the end of the year, which was driven by the accretive impact of equity issuances and valuation increases in certain farms that have been re-appraised.

Management said it expects to see "slow" acquisition activity through at least the first half of this year. Management also said they expect food and crop pricing to remain strong, and that the portfolio of the REIT is well positioned to take advantage of this.

We start this year with an FFO estimate of 74 cents per share, which would be equal to last year, if achieved.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.57	\$0.66	\$0.70	\$0.74	\$0.74	\$1.04
DPS	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.54	\$0.55	\$0.55	\$0.58
Shares²	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	35.7	37.0	40.0

Gladstone's growth has been irregular since it went public in 2013, although that growth has settled down a bit recently. From 2016 to 2018, Gladstone produced just over \$0.50 in AFFO-per-share annually, which is below where we see long-term earnings potential after recent acquisitions. With margins once again moving in the right direction, we think Gladstone can grow at 7% annually over the long-term. Acquisitions and rent escalations are likely to be the only sources of AFFO growth in the coming years, as has been the case for some time.

Growth in the trust's portfolio will drive higher rental revenues, but Gladstone continues to suffer from relatively high funding costs. It issues preferred stock with coupons in the mid-to-high single-digits, and issues common stock that has not only an implied cost of a higher share count, but also a dividend yield of ~3%. With capitalization rates in the mid-single digits, it is very difficult for Gladstone to issue such expensive capital and then profitably invest it in new properties. Given this, Gladstone must tightly control operating expenses to move the needle on a per-share basis,

¹ Estimated date

² Share count in millions

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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which it has struggled to accomplish at times in the past. We see this as continuing for the foreseeable future unless it finds a cheaper way to fund acquisitions. We note recent financing activity has been completed at more favorable rates, given that the share price has moved much higher, which should help boost the trust's margins further in the years to come. The REIT has said it is waiting out this period of higher interest rates as financing cannot be completed at favorable rates at the moment, highlighting this risk.

The dividend was raised fractionally most recently as Gladstone appears to have hit the maximum dividend it can pay until AFFO-per-share increases. The most recent increase was just 0.4%, and while the dividend increase streak is now up to nine years, the dividend is very little changed from a few years ago.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	100.7	49.3	25.8	18.9	22.0	24.8	21.2	21.6	32.3	25.8	23.0	23.0
Avg. Yld.	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	2.4%	3.0%	3.2%	2.4%

Gladstone's price-to-AFFO has been very high in recent years and sits at 23 today. We see fair value, given its projected growth and maxed out dividend, at 23 times AFFO. That implies no impact from the valuation.

The yield is 3.2% today and we see it declining over time as the share price should rise more quickly than the dividend payment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

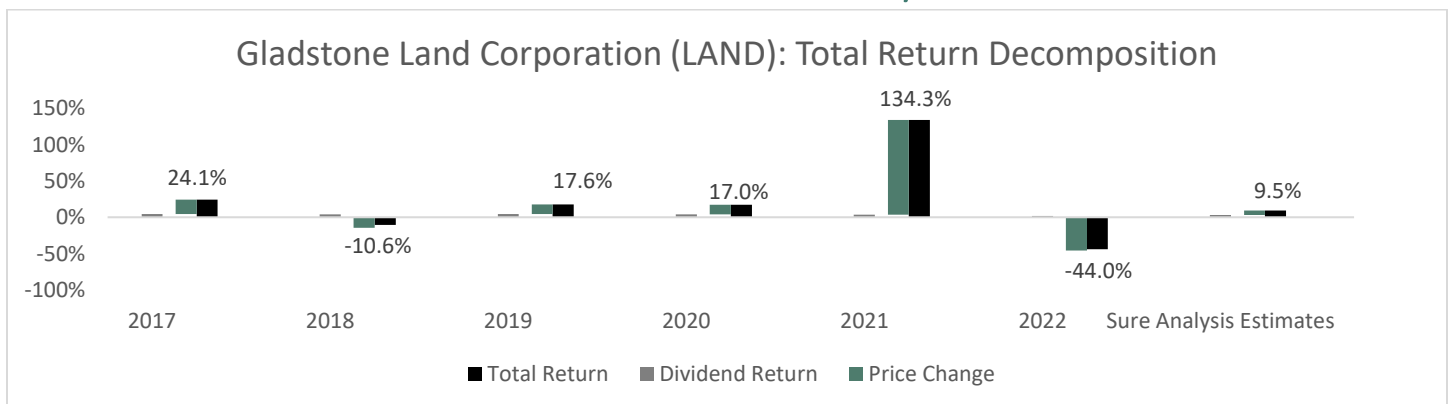
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	144%	118%	93%	93%	104%	93%	82%	77%	74%	74%	56%

Gladstone offers farmers a diverse portfolio of high-quality properties, but it doesn't necessarily have a competitive advantage. Recessions may hurt the trust's earnings as farmers that operate on low margins may struggle if a downturn occurs. Weather is another risk factor for Gladstone and its farmers, as crop destruction can occur for a variety of reasons. The dividend is now less stretched as it is 74% of AFFO-per-share for this year.

Final Thoughts & Recommendation

Gladstone's share price has performed quite poorly in recent months, which has drastically improved its yield, valuation, and total return prospects. We forecast total annual returns of 9.5%, consisting of the dividend yield of 3.2% and strong growth of 7%, with no impact from the valuation. Given the better prospects, we are upgrading Gladstone from sell to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4	7	12	17	25	37	41	57	75	89
Gross Profit	4	7	11	17	24	35	38	55	73	86
Gross Margin	97.0%	94.0%	93.3%	95.5%	94.7%	94.4%	93.9%	96.8%	96.6%	96.6%
SG&A Exp.	2	3	3	4	4	5	5	8	10	13
D&A Exp.	1	2	3	5	7	9	13	17	27	35
Operating Profit	2	2	5	7	11	12	19	28	32	34
Operating Margin	37.4%	29.5%	42.3%	42.2%	45.3%	33.0%	47.4%	48.5%	42.1%	38.2%
Net Profit	(1)	(0)	1	0	(0)	3	2	5	3	5
Net Margin	-30.3%	-1.7%	4.8%	2.6%	-0.1%	7.2%	4.3%	8.6%	4.6%	5.6%
Free Cash Flow	(1)	1	2	(1)	1	(12)	9	8	26	24
Income Tax	2	0	---	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	94	152	229	334	462	565	817	1,067	1,352	1,457
Cash & Equivalents	16	3	3	2	3	15	14	9	17	61
Inventories	---	---	---	---	2	---	---	---	---	---
Goodwill & Int. Ass.	0	1	2	2	5	6	5	4	4	6
Total Liabilities	45	92	151	246	344	384	538	683	762	726
Accounts Payable	1	2	3	3	7	9	10	9	11	16
Long-Term Debt	43	86	142	207	301	336	482	624	668	627
Shareholder's Equity	49	60	78	77	110	176	277	384	587	731
LTD/E Ratio	0.89	1.44	1.82	2.70	2.74	1.91	1.74	1.63	1.14	0.86

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%	0.3%	0.5%	0.3%	0.3%
Return on Equity	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%	0.8%	1.5%	0.7%	0.7%
ROIC	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%	0.3%	0.6%	0.3%	0.4%
Shares Out.	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	34.6
Revenue/Share	0.65	1.05	1.38	1.73	2.08	2.37	2.08	2.56	2.48	2.58
FCF/Share	(0.20)	0.13	0.17	(0.14)	0.11	(0.79)	0.46	0.38	0.86	0.68

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

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