Postal Realty Trust, Inc. (PSTL)

Updated February 3rd, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$15.60	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$453 M
Fair Value Price:	$15.20	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	02/14/2023
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	02/28/2023
Dividend Yield:	6.1%	**5 Year Price Target**	$17.62	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Postal Realty Trust focuses on acquiring and managing properties leased exclusively to the United States Postal Service (USPS), ranging from last-mile post offices to larger industrial facilities. The company is the USPS' largest lessor, having an interest in 1232 real estate properties located in 49 states, totaling approximately 5.2 million net leasable interior square feet. These properties were 99.7% occupied as of Postal Realty's latest filings, featuring a weighted average remaining lease term of approximately 4 years. Postal Realty also manages an additional 397 properties and has a right of first offer to purchase 250 of them. Postal Realty's annual revenue run rate currently stands over $55 million. The company is based in Cedarhurst, New York.

On November 1st, 2022, Postal Realty reported its Q3 results for the period ending September 30th, 2022. For the quarter, revenues grew 30.9% year-over-year to $13.78 million, driven by higher rental income and higher fee income. The increase in rental income was, in turn, driven by the company's acquisition spree over the past four quarters, including 66 properties that were acquired during the quarter.

Funds from Operations came in at $5.8 million, or $0.25 per diluted share, up 31.8% and flat year-over-year, respectively. While Funds from Operations grew in line with revenues as a result of an expanded portfolio, the per-share result failed to expand due to the additional shares that were issued to fund these acquisitions.

Management continued to execute its serial acquisition strategy subsequent to the quarter, purchasing an additional seven properties. With these properties, total acquisitions during 2022 have totaled 273 properties for $109 million, while it has another ten properties totaling approximately $4 million under definitive contracts. For fiscal 2022, we expect FFO/share to land close to $0.95, flat year-over-year.

On February 1st, 2023, Postal Realty increased its dividend by 1.1% to a quarterly rate of $0.2375. This marked the company's 14th consecutive quarterly dividend increase.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/shr	---	---	---	---	---	---	---	---	$0.85	$0.95	***$0.95***	***$1.10***
DPS	---	---	---	----	---	---	---	$0.20	$0.79	$0.89	***$0.95***	***$1.10***
Shares[1]	---	---	---	----	---	---	---	5.2	7.0	13.7	***17.8***	***20.0***

Postal Realty has been growing through acquiring and consolidating properties leased to the United States Postal Service – it has been on this journey over the past 30 years. Growth from lease renewals at higher rates over time should also contribute to growth, as renewing a lease is a more attractive economic alternative than moving for USPS, even if it's at a higher rate. The fact that USPS is also responsible for the majority of property expenses should also allow for a decent expansion in margins over time.

Nevertheless, from what we've seen thus far during the company's short period in the public markets, continuous dilution has been suppressing any potential growth in the per-share metrics. We expect FFO/share growth of about 3%

[1] Share count is 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.

over the medium-term, expecting that lease renewals and acquisitions will eventually be accretive to results while remaining relatively prudent. In terms of the dividend, it has grown for 14 consecutive quarters by fractional amounts, which eventually add up. We also forecast dividend-per-share growth of 3% in the coming years, expecting the company to keep distributing the majority of its operating cash flows.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/FFO	---	---	---	---	---	---	---	---	17.6	19.3	***16.4***	***16.0***
Avg. Yld.	---	---	---	----	---	---	---	---	5.2%	4.9%	***6.1%***	***6.3%***

Shares of Postal Realty have seen their valuation contract lately as a result of a lack of meaningful growth in the company's per-share metrics, as well as rising interest rates, which could further weigh down on Postal Realty's profitability prospects. Normally, we would assign a fair multiple in the low teens to the stock, but given its numerous qualities, we can see investors paying close to 16 times Postal Realty's FFOs. This still implies the possibility of minor valuation headwinds in the coming years. The 6.1% should compensate for the lack of notable growth prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

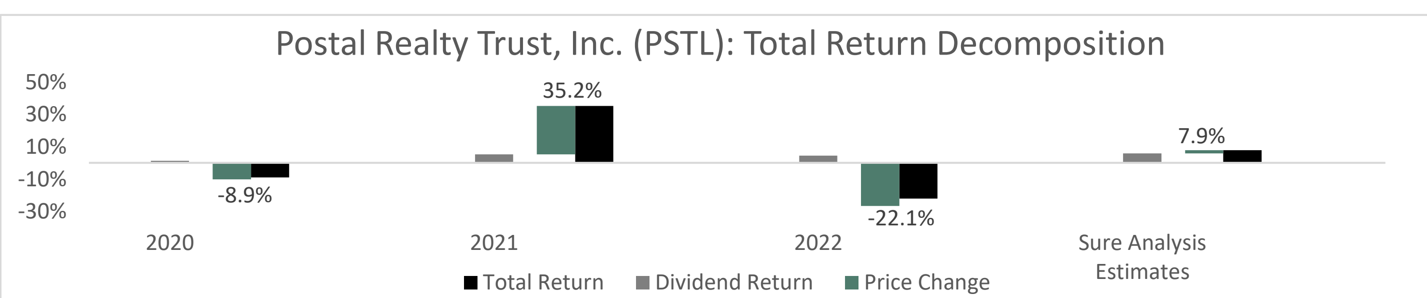
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	93%	93%	***100%***	***100%***

Despite the high payout ratio, we believe that Postal Realty's dividend is safe and backed by the company's multi-year leases and predictable cash flow generation. The most recent dividend increase strengthens this argument. Postal Realty's numerous qualities should also bolster its investment case. These include the fact that –despite the lack of tenant diversification– USPS is an incredibly trustworthy tenant that will never miss on its rental payments. Due to its Federal government-supported credit, the rental collection has consistently been 100%, while the USPS' operating lease payments were only 1.7% of total operating expenses last year. Additionally, due to USPS's mission-critical logistics network being irreplaceable, Postal Realty's historical weighted average lease retention rate stands at 98.8% - hence the near 100% occupancy rates. The benefits of having USPS as your sole tenant make for some great competitive traits. For these reasons, we believe the company should keep producing rather robust results during a recession. Balance sheet-wise, Postal Realty's net debt/enterprise value stands at 34.6%. Hence, we remain wary of rising interest costs.

Final Thoughts & Recommendation

Postal Realty is a truly unique REIT, with its exclusive focus on USPS properties forming a fantastic set of operating qualities. That said, we remain cautious regarding the company's ability to meaningfully grow its per-share metrics, given the current pace of dilution. Total return estimate comes in at 7.9% per annual, stemming from 3% growth and the 6.1% dividend yield, slightly offset by the possibility of soft valuation headwinds. Shares earn a hold rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Postal Realty Trust, Inc. (PSTL)

Updated February 3rd, 2023 by Nikolaos Sismanis

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue						7	8	11	24	40
Gross Profit						5	6	9	19	31
Gross Margin						76.9%	75.7%	77.2%	79.5%	76.5%
SG&A Exp.						1	1	5	8	11
D&A Exp.						1	2	3	8	12
Operating Profit						2	3	0	2	6
Operating Margin						30.6%	33.5%	0.6%	8.3%	14.8%
Net Profit						1	1	(1)	(0)	2
Net Margin						16.4%	14.8%	-9.2%	-1.4%	5.1%
Free Cash Flow						2	3	3	9	17
Income Tax						(1)	(0)	0	0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets						34	36	137	259	378
Cash & Equivalents						0	0	12	2	6
Accounts Receivable						1	1	2	4	4
Goodwill & Int. Ass.						3	3	7	13	15
Total Liabilities						44	41	67	139	112
Accounts Payable						2				
Long-Term Debt						38	35	57	125	95
Shareholder's Equity						(10)	(6)	49	92	220
LTD/E Ratio						(3.75)	(6.15)	1.17	1.35	0.43

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets							3.3%	-1.2%	-0.2%	0.6%
Return on Equity								-4.8%	-0.5%	1.3%
ROIC							4.0%	-1.3%	-0.2%	0.7%
Shares Out.								5.2	7.0	13.7
Revenue/Share						1.27	1.45	2.19	3.49	2.92
FCF/Share						0.43	0.51	0.55	1.34	1.25

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