



Easterly Government Properties Inc. (DEA)

Updated March 10th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$14.2	5 Year CAGR Estimate:	13.6%	Market Cap:	\$1.5 B
Fair Value Price:	\$19.4	5 Year Growth Estimate:	1.9%	Ex-Dividend Date:	6/10/23 ¹
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.4%	Dividend Payment Date:	6/21/23 ²
Dividend Yield:	7.5%	5 Year Price Target	\$21	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Easterly Government Properties is an internally managed REIT with a focus on acquisition, development and management of properties which are leased to U.S. Government agencies. Most of the trust's properties are leased to U.S. government agencies such as the FBI, IRS, and DEA. The REIT was originally founded in 2011 as Easterly Partners LLC, then later was changed to Easterly Government Properties before the trust had its IPO on February 10th, 2015 at a price of \$15 per share. This \$1.5 billion market capitalization trust is listed on the New York Stock Exchange under the symbol DEA.

On February 28th, 2023, Easterly Government Properties, Inc. (DEA) announced its Q4 and FY 2022 results. For the quarter ended December 31, 2022, the company reported a net income of \$18.4 million, equivalent to \$0.18 per share on a fully diluted basis, and FFO of \$30.9 million, equivalent to \$0.30 per share on a fully diluted basis. FFO, as adjusted, was \$30.0 million, equivalent to \$0.29 per share on a fully diluted basis, while CAD amounted to \$21.7 million. For the year ended December 31, 2022, the company reported a net income of \$35.6 million, equivalent to \$0.35 per share on a fully diluted basis, and FFO of \$129.7 million, equivalent to \$1.27 per share on a fully diluted basis. FFO, as adjusted, was \$128.9 million, equivalent to \$1.26 per share on a fully diluted basis, while CAD amounted to \$108.5 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/S	N/A	N/A	\$1.04	\$1.17	\$1.26	\$1.17	\$1.20	\$1.26	\$1.31	\$1.27	\$1.14	\$1.25
DPS	N/A	N/A	\$0.54	\$0.92	\$1.00	\$1.04	\$1.09	\$1.04	\$1.06	\$1.06	\$1.06	\$1.15
Shares³	N/A	N/A	24.2	36.9	45.0	60.9	75.0	82.0	90.1	90.8	90.8	97.9

Instead of EPS, we used funds from operations per share (FFO/S) as Easterly's primary growth metric. We used FFO/S because it more accurately communicates a REIT's true performance. Easterly has only six reportable years of operations, but in that time the trust has been able to significantly grow its operations. Over its first five years, the trust averaged 4% FFO/S growth, which is a respectable amount for a REIT. We expect Easterly to grow at 1.9% annually over the next half decade, which gives us a 2028 FFO/S target of \$1.25 and a 5-year price target of ~\$21. To generate growth, Easterly will need to continue to accretively acquire new properties, which will be increasingly difficult given rising interest rates and DEA's share price weakness.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	N/A	N/A	16.5	16.6	16.9	13.4	19.1	16.9	17	12.6	12.5	17.0
Avg. Yld.	N/A	N/A	3.1%	4.7%	4.7%	6.6%	4.8%	4.9%	4.8%	6.6%	7.5%	5.4%

¹ Estimate

² Estimate

³ In millions



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We estimate Easterly's fair price to funds-from-operations ratio (P/FFO) at 17. Comparing the current P/FFO ratio to the fair value estimate, Easterly is undervalued at current prices. As a result, we expect shares to experience multiple expansion over the next half decade, providing a tailwind for total returns. We also expect the yield to fall as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	N/A	N/A	52%	79%	79%	89%	91%	83%	81%	83%	93%	92%

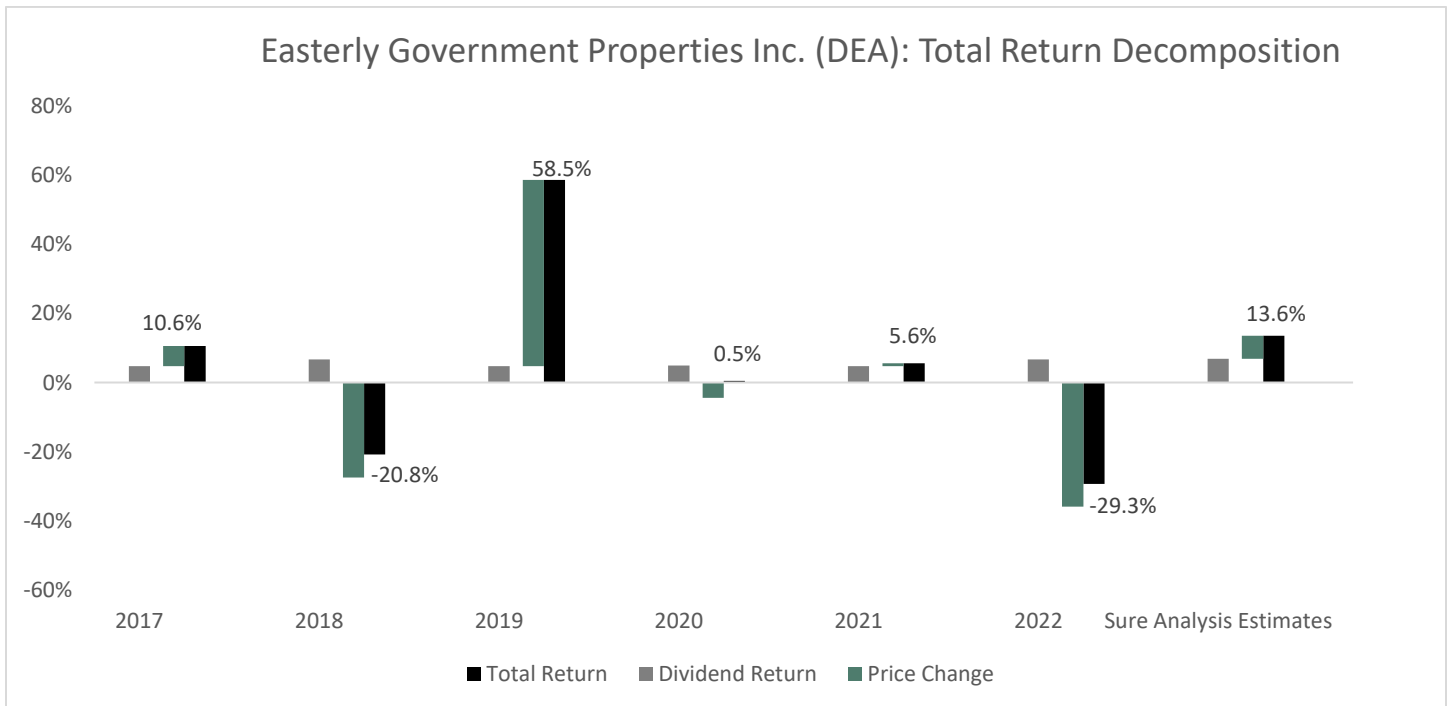
Easterly has found a lucrative niche in the real estate business and has been working to become a brand name in its field of U.S. Government leasing. The trust's operations are viewed as safe investments since the U.S. government is very unlikely to go bankrupt due to its taxation power. Within the U.S. Government, Easterly leases to predominantly agencies which are considered as essential services, which is the main reason the trust has been able to achieve an outstanding 100% occupancy rate. Easterly has much of its operations guaranteed going forward, which takes away some risk.

Easterly has not been around for a recession but given that it operates the federal government's essential service locations, investors should not be worried about exceptional losses during a recession. We believe the security will be able to maintain its dividend during even a severe recession as the taxing and borrowing power of the U.S. government is relatively unaffected by the economic environment.

Final Thoughts & Recommendation

Overall, we expect total returns of 13.6% annually over the next half decade, mainly driven by the 7.5% dividend yield, with expected annual growth and multiple expansion. As a result, we rate Easterly Government Properties as a Buy at current prices due to low tenant risk, the attractive yield, and strong total return potential.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4	6	71	105	131	161	222	245	275	294
Gross Profit		6	51	74	92	112	150	170	188	196
Gross Margin	0.0%	100%	71.5%	70.4%	70.4%	70.0%	67.6%	69.2%	68.3%	66.7%
SG&A Exp.	6	10	9	12	13	15	20	21	24	25
D&A Exp.		-	28	39	46	58	86	88	87	95
Operating Profit	(2)	(4)	8	15	24	31	37	55	73	73
Operating Margin	-39%	-57%	10.7%	14.8%	18.6%	19.4%	16.8%	22.5%	26.5%	24.8%
Net Profit	(4)	2	(1)	4	4	6	7	12	30	31
Net Margin	-108%	37.9%	-1.8%	3.8%	3.4%	3.6%	3.3%	4.9%	10.9%	10.7%
Free Cash Flow	(45)	(22)	30	47	49	63	142	145	118	126

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	178	301	912	1,047	1,425	1,862	2,235	2,458	2,826	2,829
Cash & Equivalents	3	31	8	5	13	7	12	8	11	8
Accounts Receivable			9	14	22	33	44	45	59	59
Goodwill & Int. Ass.			117	115	143	166	169	163	186	157
Total Liabilities	1	3	292	349	634	836	1,035	1,158	1,385	1,418
Long-Term Debt	-	-	238	293	576	766	902	978	1,211	1,251
Shareholder's Equity	(2)	13	377	560	668	894	1,063	1,155	1,283	1,245
LTD/E Ratio	-	-	0.63	0.52	0.86	0.86	0.85	0.85	0.94	1.01

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		1.0%	-0.2%	0.4%	0.4%	0.3%	0.4%	0.5%	1.1%	1.1%
Return on Equity		41.7%	-0.7%	0.8%	0.7%	0.7%	0.7%	1.1%	2.5%	2.5%
ROIC		1.0%	-0.2%	0.4%	0.4%	0.4%	0.4%	0.5%	1.2%	1.2%
Shares Out.	N/A	N/A	24.2	36.9	45.0	60.9	75.0	82.0	90.1	90.8
Revenue/Share	0.18	0.26	3.33	3.23	3.14	2.92	3.20	3.11	3.25	3.23
FCF/Share	(1.99)	(0.93)	1.40	1.46	1.18	1.14	2.06	1.84	1.40	1.38

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

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