Four Corners Property Trust, Inc. (FCPT)

Updated March 7th, 2023 by Felix Martinez

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$2.36 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/30/23[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	04/14/23
Dividend Yield:	5.0%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	7
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Four Corners Property Trust was formed after Darden Restaurants, Inc (DRI) spin-off, announced in November 2015. Four Corners Property Trust commenced trading on November 10, 2015, on the New York Stock Exchange under the symbol FCPT. FCPT has become an independent public trust that intends to elect and qualify to be treated as a real estate investment trust (REIT) effective January 1, 2016. FCPT, headquartered in Mill Valley, CA, is a real estate investment trust primarily acquiring and leasing restaurant properties. The Trust seeks to grow its portfolio by acquiring additional real estate to lease, on a net basis, for use in the restaurant and retail industries. The Trust has a seven-year dividend growth history and a market capitalization of $2.36 billion.

On February 15th, 2023, FCPT reported fourth-quarter and full year financial and operating results for Fiscal Year (FY)2022. Rental revenue for the fourth quarter increased 10.2% over the prior year to $50.1 million. Rental revenue consisted of $49.2 million in cash rents and $0.9 million of straight-line and other non-cash rent adjustments. Net income was $22.9 million for the fourth quarter, or $0.27 per diluted share. These results compare to net income of $23.7 million for the same quarter in the prior year, or $0.30 per diluted share, which is an decrease of (9,9)%. FFO per share for the fourth quarter was $0.40, representing a $0.02 per share increase compared to the same quarter in 2021. AFFO per share for the quarter was $0.41, representing flat results per share compared to the same quarter in 2021.

FCPT acquired 42 properties for a combined purchase price of $119.6 million during the quarter, with an initial weighted average cash yield of 6.6%. These acquisitions have a weighted average remaining lease term of 8.2 years. We expect the company to increase earnings year-over-year by 3.1% from $1.60 in 2022 to $1.65 per share in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$0.92	$0.91	$1.51	$1.35	$1.36	$1.41	$1.44	$1.49	$1.56	$1.60	***$1.65***	***$2.01***
DPS	NA	NA	NA	$1.17	$1.00	$1.11	$1.17	$1.23	$1.29	$1.34	***$1.38***	***$1.60***
Shares[2]	42.0	42.0	6.0	60.0	61.0	64.0	69.0	72.0	77.0	81.0	***81.0***	***81.0***

The most significant growth prospects from FCPT will be the continuation of profitable acquisitions in the future. The Trust does not have a long history of FFO growth, but FCPT has grown FFO at a Compound Annual Growth Rate (CAGR) of 3.2% over the past five years. During the COVID-19 pandemic, most REITs had to cut their dividend, or FFO decreased for the year. However, FCPT increased earnings by 4% from FY2019 to FY2020. We expect FCPT to continue to grow FFO at a 4% CAGR for the next five years. We expect the Trust to make $2.01 per share in 2027.

The dividend has been growing steadily, with a five-year average growth rate of 4.5%. We think that the Trust will continue to raise its dividend at a pace of 3% for the next five years.

[1] Ex-Dividend and Dividend Payment Date are estimates

[2] 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.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	NA	NA	16	15.2	18.9	18.5	18.4	19.9	18.9	16.2	***16.6***	***17.0***
Avg. Yld.	NA	NA	NA	5.7%	3.9%	4.3%	4.1%	4.1%	4.4%	5.2%	***5.0%***	***4.7%***

FCPT currently trades hands with a 16.6x FFO, lower than its peers. Over the short history of FCPT, the Trust has five-year multiple averages of 18.4x FFO. However, we think a multiple of 17x FFO is fair for FCPT because it will be in line with the sector median. Thus, this will provide a 0.5% tailwind expansion over the next five years. The current dividend yield of 5.0% is attractive and higher than its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	NA	NA	NA	87%	74%	79%	81%	83%	83%	84%	***84%***	***80%***

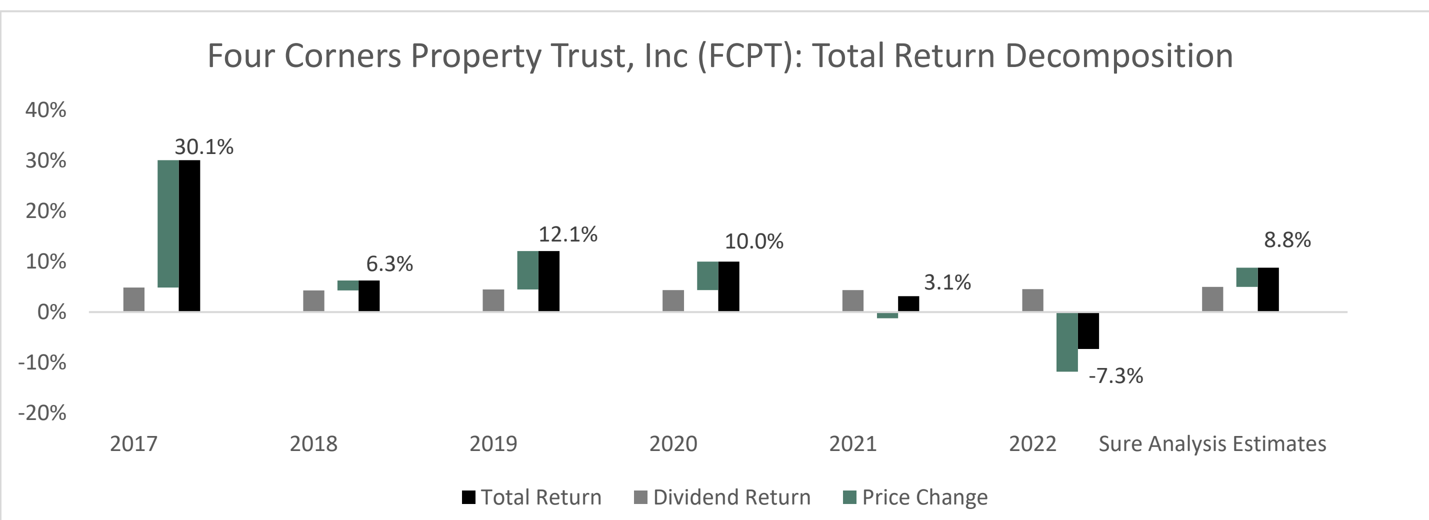
FCPT's competitive advantage is that it has a good management team. Also, the Trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80-90% range for this sector, compared to most shopping center REITs' ~65% operating margins. FCPT does not have a long history, but the Trust held steadfast during the COVID-19 pandemic. From 2019 to 2020, revenue grew 6.9%, and FFO increased 4%. This speaks volumes as most retail REITs struggle mightily during the pandemic. Also, FCPT did not have to cut its dividend.

FCPT had a good balance sheet. The Trust has an interest coverage ratio of 3.8 and a debt-to-equity ratio of 0.9. The Trust currently has $58 million cash on hand. The dividend payment is in line with other REITs paying out 84% of its FFO.

Final Thoughts & Recommendation

FCPT is a well-run retail REIT with a good balance sheet. The Trust went through the COVID-19 pandemic like it was not even there. The Trust looks undervalued, with an expected total return for the next five years to be 8.8%. Thus, we give FCPT a hold rating at the current price because of the expected total return over the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	17	18	33	124	133	144	160	171	199	223
Gross Profit	1	1	16	106	114	124	139	151	170	187
Gross Margin	4.6%	4.3%	49.2%	85.6%	85.8%	86.5%	86.8%	88.5%	85.2%	84.0%
SG&A Exp.		0	2	11	12	13	14	15	18	20
D&A Exp.	1	1	4	21	22	24	26	29	35	41
Operating Profit	0	0	11	75	80	87	99	107	117	126
Operating Margin	-0.6%	-0.6%	32.4%	60.2%	60.4%	60.6%	61.6%	62.5%	58.8%	56.4%
Net Profit	0	0	6	157	71	82	73	77	86	98
Net Margin	0.2%	0.2%	17.0%	126.4%	53.6%	57.4%	45.3%	45.2%	42.9%	43.8%
Free Cash Flow	1	1	22	71	79	81	105	91	122	142
Income Tax	-0.1	-0.1	3	-80	0.0	0.3	0.3	0.2	-1	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	13	12	929	937	1069	1343	1446	1668	1903	2199
Cash & Equivalents	0	0	98	27	64	92	5	11	6	26
Accounts Receivable			0.1	0.2	0.4	1	0.4	1	1	3
Inventories	0.17	0.11	0.2	0.2	0.2	0.2	0.2	3	0	8
Goodwill & Int. Ass.				2	4	19	58	96	104	106
Total Liabilities	3	3	488	467	546	644	719	824	939	1060
Accounts Payable	0.4	0.5	1	1	1	1	1	0	1	1
Long-Term Debt	0	0	392	439	516	616	670	754	878	995
Shareholder's Equity	10	9	442	465	514	691	721	841	962	1136
LTD/E Ratio	0	0	0.89	0.94	1.00	0.89	0.93	0.90	0.91	0.88

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		0.3%	1.2%	16.8%	7.1%	6.8%	5.2%	5.0%	4.8%	4.8%
Return on Equity		0.3%	2.5%	34.6%	14.6%	13.7%	10.3%	9.9%	9.5%	9.3%
ROIC		0.3%	1.4%	18.0%	7.3%	7.0%	5.4%	5.2%	5.0%	4.9%
Shares Out.	42.0	42.0	6.0	60.0	61.0	64.0	69.0	72.0	77.0	81.8
Revenue/Share	0.40	0.42	5.34	2.08	2.19	2.23	2.33	2.39	2.59	2.73
FCF/Share	0.02	0.02	3.46	1.19	1.30	1.26	1.53	1.28	1.59	1.74

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