Global Net Lease (GNL)

Updated February 28th, 2023 by Samuel Smith

Key Metrics

Current Price:	$14.1	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$1.5B
Fair Value Price:	$13.4	**5 Year Growth Estimate:**	1.4%	**Ex-Dividend Date:**	04/12/23[1]
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	04/17/23[2]
Dividend Yield:	11.3%	**5 Year Price Target**	$14	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. and Europe with an emphasis on sale-leaseback transactions. The trust owns well in excess of 300 properties, of which office is the largest sector, followed by industrial and retail. Global Net Lease is a $1.5 billion market capitalization business.

On February 23rd, 2023 Global Net Lease reported FY2022 results. The company reported a revenue of $378.9 million, which, on a Constant Currency basis, would have been $394.2 million, representing a 1% increase from the prior year's revenue of $391.2 million. It is worth noting that the prior year's revenue included a lease termination fee of $8.8 million and a $5.2 million receivable recorded for certain costs, both of which were included in revenue. The net loss for the year was $8.4 million, or $0.09 per diluted share. The company's Net Operating Income (NOI) was $346.0 million compared to $353.2 million in the previous year. The Core Funds from Operations (Core FFO) were $169.2 million, or $1.63 per diluted share, and the Adjusted Funds from Operations (AFFO) were $172.9 million compared to $173.5 million in 2021. The AFFO per share was $1.67 compared to $1.77 in the prior year. The company distributed $166.8 million, or $1.60 per share, in dividends to common stockholders. The company's portfolio was 98.0% leased with 8.0 years of weighted average remaining lease term. Contractual annual cash rent increases were observed in 94% of leases, with an average cumulative rate of 1.2% per year, including but not limited to 63% that are fixed-rate increases and 26% that are based on the Consumer Price Index. Over 60% of annualized straight-line rent came from Investment Grade or implied Investment Grade tenants. The company acquired three properties for $33.3 million at a going-in capitalization rate of 6.8% and a weighted-average capitalization rate of 7.7%, with 13.6 years of weighted-average remaining lease term. Subsequent to the quarter end, the company acquired eight properties in the United Kingdom for $75.5 million at a weighted-average cap rate of 10.6%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFOPS	---	---	$1.96	$2.24	$2.10	$2.12	$1.85	$1.79	$1.77	$1.67	***$1.68***	***$1.80***
DPS	---	---	$1.40	$2.13	$2.13	$2.13	$2.13	$1.73	$1.60	$1.60	***$1.60***	***$1.80***
Shares[3]	---	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	103.4	***103.4***	***120.0***

Note that Global Net Lease was not publicly listed until 2015, which results in a short observation history.

From first glance, Global Net Lease appears to be a strong REIT with 100+ tenants, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar, diversified across seven countries. However, there are a variety of underlying concerns, especially as it relates to potential growth.

General concerns include potential conflicts of interest due to being externally managed by AR Global Investments (which invests for other entities), the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an "implied" credit model.

[1] Estimate

[2] Estimate

[3] In millions

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While GNL should be fairly well insulated from recessions thanks to their net lease structure and their diversified pool of investment grade tenants, they did cut their dividend in 2020 as coverage was already very tight. We forecast 1.4% AFFO per share growth through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	---	---	10.5	9.8	8.4	9.3	9.5	9.6	8.9	7.9	***8.4***	***8.0***
Avg. Yld.	---	---	6.8%	9.7%	12.1%	10.8%	12.1%	10.1%	10.2%	12.1%	***11.3%***	***12.5%***

Over the past four years shares have traded hands in the $15 to $27 range, implying an AFFO multiple in the 7 to 13 range. Given the current economic uncertainty across the globe and our concerns about sustainable long-term per-share growth, our fair value estimate will be on the low end of the spectrum at 8 times AFFO. As a result, we view shares as slightly overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	71%	95%	101%	100%	115%	97%	90%	96%	***95%***	***100%***

The balance sheet is reasonably liquid and flexible given the strong interest coverage ratio, low weighted-average interest rate, well laddered debt maturities, and high percentage of fixed-rate debt. Additionally, after its recent dividend cut, the payout ratio improves the current dividend's safety and improves its chances of achieving accretive growth.

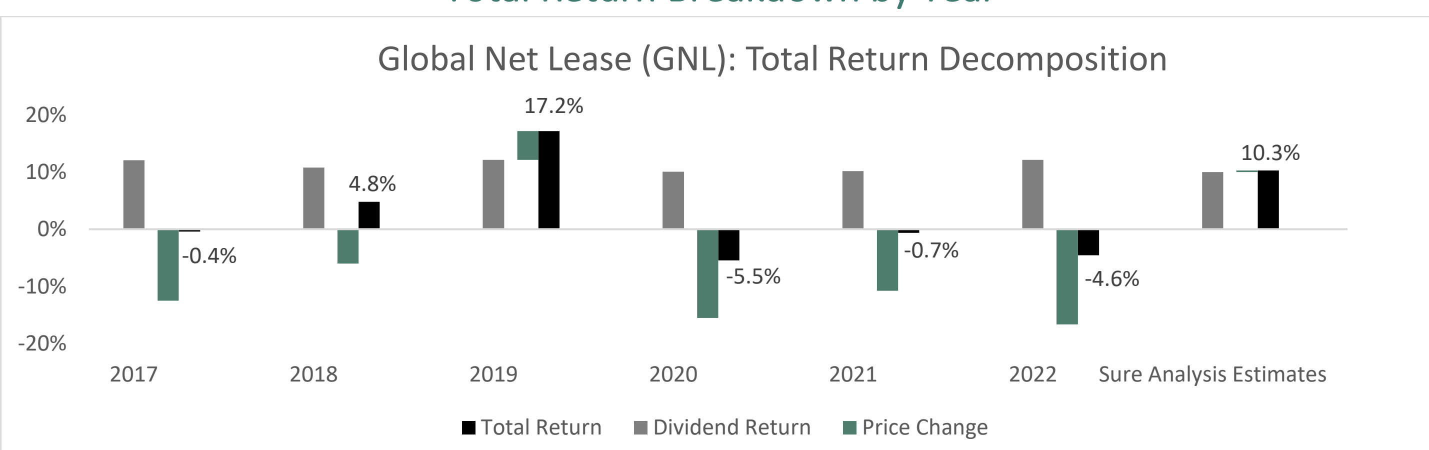
As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio heading into the coronavirus outbreak unsurprisingly led to a dividend cut in 2020.

Final Thoughts & Recommendation

GNL is supported by a diversified and defensively positioned portfolio of mostly investment grade tenants signed to long term triple net leases. However, the external management leaves investors at considerable risk of suffering from misaligned interests and potentially underwhelming future growth.

We rate shares a Buy given the 10.3% annualized total return potential over the next half decade.

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	93	205	214	259	282	306	330	391	379
Gross Profit	4	85	187	195	230	253	278	298	358	346
Gross Margin	98.9%	91.5%	91.1%	91.1%	88.9%	89.8%	90.8%	90.2%	91.6%	91.3%
SG&A Exp.	0	5	43	31	29	41	53	59	67	70
D&A Exp.	2	42	92	97	118	125	131	143	168	159
Operating Profit	2	40	54	70	88	93	99	100	128	122
Operating Margin	42.7%	42.8%	26.2%	32.7%	34.0%	32.8%	32.3%	30.3%	32.7%	32.2%
Net Profit	(7)	(54)	(2)	47	24	11	46	11	11	12
Net Margin	-177%	-57.4%	-1.0%	22.0%	9.1%	3.9%	15.2%	3.3%	2.9%	3.2%
Free Cash Flow	(4)	(19)	92	114	128	143	129	170	185	152
Income Tax	-	(1)	6	4	3	2	4	5	12	11

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	215	2,429	2,541	2,891	3,039	3,309	3,702	3,967	4,183	3,962
Cash & Equivalents	12	65	70	70	102	100	270	124	90	103
Goodwill & Int. Ass.	48	488	521	601	652	698	674	735	770	574
Total Liabilities	92	1,012	1,320	1,535	1,624	1,881	1,992	2,413	2,556	2,508
Accounts Payable	3	15	19	23	23	32	23	28	26	23
Long-Term Debt	79	942	1,242	1,419	1,514	1,772	1,869	2,265	2,427	2,396
Shareholder’s Equity	123	1,417	1,205	1,348	1,413	1,425	1,698	1,532	1,621	1,439
LTD/E Ratio	0.64	0.66	1.03	1.05	1.07	1.24	1.10	1.48	1.50	1.67

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		-4.1%	-0.1%	1.7%	0.8%	0.3%	1.3%	0.3%	0.3%	0.3%
Return on Equity		-7.0%	-0.2%	3.7%	1.7%	0.8%	3.0%	0.7%	0.7%	0.8%
ROIC		-4.2%	-0.1%	1.8%	0.8%	0.4%	1.4%	0.3%	0.3%	0.3%
Shares Out.	---	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	103.4
Revenue/Share	0.07	1.66	3.53	3.78	3.88	4.05	3.55	3.69	3.98	3.65
FCF/Share	(0.06)	(0.33)	1.58	2.01	1.91	2.05	1.49	1.91	1.88	1.46

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