



Modiv Inc. (MDV)

Updated February 27th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$12.35	5 Year CAGR Estimate:	6.6%	Market Cap:	\$126 M
Fair Value Price:	\$11.25	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	02/27/2023
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	03/24/2023
Dividend Yield:	9.3%	5 Year Price Target	\$11.25	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Modiv is Real Estate Investment Trust, which, as its name suggests, aims to pay MOnthly DIVidends to its shareholders. The company acquires, owns, and actively manages single-tenant net-lease industrial, retail, and office properties in the United States, focusing on strategically essential and mission-critical properties with predominantly investment-grade tenants. As of its most recent filings, the company's portfolio comprised 46 properties that occupied 3.2 million square feet of aggregate leasable area. Prior to its public listing in 2022, the company Modiv was one of the largest non-listed REITs to raise funds entirely via crowdfunding and the first real estate crowdfunding platform to be entirely investor-owned. The company generated \$46.2 million in revenues last year and is based in Costa Mesa, California.

On February 23rd, 2023, Modiv reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, total revenues came in at \$14.4 million, up 63% year-over-year. The \$5.6 million increase reflected a larger property portfolio following Modiv's acquisition spree over the past year, as well as the early termination fee revenue paid by Sutter Health related to its property in Rancho Cordova, California. Excluding the \$3.8 million early termination fee revenue, revenues for the quarter would have grown by \$1.8 million, or 20% year-over-year.

AFFO was \$6.9 million, or \$0.68 per diluted share, compared with AFFO of \$2.4 million, or \$0.27 per diluted share, in the prior-year period. Again, much of the \$4.5 million increase (\$3.8 million) in AFFO was primarily attributable to the early termination fee discussed above. As a result, the AFFO per share for FY2022 was also quite elevated, coming in at \$2.22 compared to \$1.52 last year. For FY2023, we expect AFFO per share to be close to \$1.25 based on the company's current leasing profile. The year-over-year decline is due to assuming a lack of any extraordinary factors that could boost results, similar to last year's termination fees.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO/shr	---	---	---	---	---	---	\$1.56	\$1.19	\$1.52	\$2.22	\$1.25	\$1.25
DPS	---	---	---	---	\$0.37	\$0.70	\$0.70	\$1.46	\$1.08	\$1.25	\$1.15	\$1.15
Shares¹	---	---	---	0.1	2.0	3.7	5.0	8.0	7.5	7.5	7.5	14.0

Modiv's financials have a very short history, so it's rather hard to assess whether the company's mass-acquisition growth strategy has been fruitful. Management has been primarily focused on acquiring industrial properties, but they've stated they may also target other types, including retail properties, data centers, and storage properties. For instance, last year, the company acquired four industrial properties and one retail property. Modiv's strategy is to keep on acquiring more properties, which it hopes will be accretive to AFFO per share over time. That said, we believe this is going to be a tough journey, as financing has become very expensive for the company. Its hefty dividend, which is distributed on a monthly basis, deters the issuance of common stock due to its hefty yield, which would likely exceed the ROI from acquired assets. Issuing debt is also going to be very expensive for the company, as creditors should have elevated demands from such a small player in the industry in a rising-rates environment. The company's 7.9%-yielding preferred equity, which accounts for about 14% of Modiv's capitalization, also sounds like an expensive route. Thus, we expect stable results in

¹ Share count is in millions.

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the medium-term until we get a clearer picture of Modiv's prospects. The rate of monthly dividends currently stands at \$0.0958. We don't believe the company can afford any dividend increases moving forward.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/AFFO	---	---	---	---	---	---	---	---	---	6.8	9.9	9.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	8.3%	9.3%	10.2%

Modiv is currently valued at about 9.9X our projected earnings for FY2023. Given the risks attached to the possible lack of growth prospects moving forward, we have set our fair multiple at 9X, implying the possibility of a valuation headwind. From another perspective, while the 9.3% yield sounds substantial, we would require a higher tangible return from Modiv, given its risk profile. A yield in the low-double digits following our desired multiple compression would do that. The company claims its Net Asset Value (NAV) per share stands at \$27.72, which implies shares are trading at half their book value. However, we believe this is due to the balance sheet reflecting the prices paid by the company prior to becoming public to acquire these assets, for which we believe it overpaid.

Safety, Quality, Competitive Advantage, & Recession Resiliency

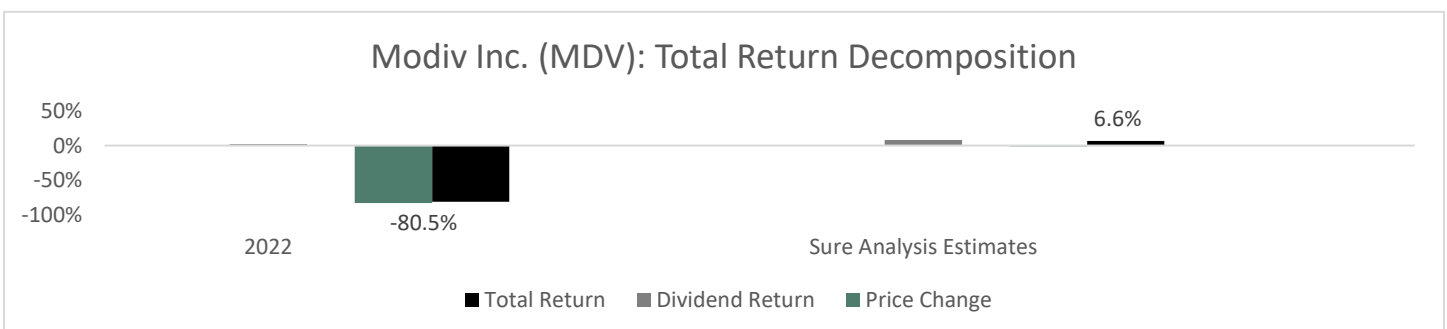
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	45%	123%	71%	56%	92%	92%

While Modiv's monthly dividend appears covered, we wouldn't trust it just yet. The company has to put a lengthier track record of robust AFFO/share generation to do so, and the current market environment will certainly test this. Some notable qualities include a lengthy weighted average lease term of 11.9 years, which should provide predictable cash flow. Still, due to its length, it may be a curse if expenses rise faster than the company's negotiated leasing rates during this period, which could result in a decline in profits. Regardless, Modiv seems to have a quality tenant base as well, including Costco, 3M, and Northrop Grumman. We don't identify any particular competitive advantages. While the company's properties are mission-critical for many of its tenants, we don't exclude the possibility of a recession hurting Modiv's results. Finally, we highlight that shares have limited liquidity. On average, just 15,000 shares are traded daily.

Final Thoughts & Recommendation

Modiv is one of the newest monthly dividend stocks to enter the public markets and our coverage universe. The company's track record is too short, so we can't make something meaningful out of it. However, we bet the company will have a hard time pursuing its growth strategy in the current market environment without risking over-diluting shareholders. Our initial assumptions include no growth on a per-share, and the possibility of a valuation headwind. Powered by the dividend, we forecast annualized total returns of about 6.6% through 2028. We rate Modiv a 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							25	39	36	46
Gross Profit							20	32	30	37
Gross Margin							80.1%	81.9%	81.5%	80.7%
SG&A Exp.							7	11	13	10
D&A Exp.							9	16	14	
Operating Profit							3	3	2	12
Operating Margin							10.9%	8.9%	4.5%	26.3%
Net Profit							(4)	(49)	(0)	(3)
Net Margin							-18.0%	-127%	-1.2%	-7.1%
Free Cash Flow							5	5	10	

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets							491	407	428	456
Cash & Equivalents							7	8	56	9
Accounts Receivable							6	8	8	9
Inventories							-	26	32	5
Goodwill & Int. Ass.							60	23	18	2
Total Liabilities							237	217	206	215
Accounts Payable							1	1	2	9
Long-Term Debt							206	192	182	195
Shareholder's Equity							204	140	172	160
D/E Ratio							1.01	1.37	1.06	1.22

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets								-10.9%	-0.1%	-0.7%
Return on Equity								-28.6%	-0.3%	-2.0%
ROIC								-11.7%	-0.1%	-0.8%
Shares Out.							5.0	8.0	7.5	7.5
Revenue/Share							3.25	5.12	4.80	6.17
FCF/Share							0.63	0.66	1.26	

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

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