Uniti Group (UNIT)

Updated February 28th, 2023 by Samuel Smith

Key Metrics

Current Price:	$5.5	**5 Year CAGR Estimate:**	20.2%	**Market Cap:**	$1.4B
Fair Value Price:	$8.1	**5 Year Growth Estimate:**	5.3%	**Ex-Dividend Date:**	3/30/23
% Fair Value:	68%	**5 Year Valuation Multiple Estimate:**	7.4%	**Dividend Payment Date:**	4/14/23
Dividend Yield:	10.9%	**5 Year Price Target**	$11	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Uniti Group is a Real Estate Investment Trust (i.e., REIT) that focuses on acquiring, constructing, and leasing out communications infrastructure in the United States. In particular, it owns millions of miles of fiber strand along with other communications real estate. In its recent past it has faced challenges due to its largest tenant filing for bankruptcy and renegotiating its lease with Uniti. However, the REIT is now on firmer footing and is pursuing growth opportunities.

On February 24th, Uniti Group reported Q4 results. Consolidated revenues were $283.7 million, down by 3.2% year-over-year. The REIT generated $0.44 per share in AFFO, beating analyst consensus estimates by $0.06. Furthermore, net income per share was $0.13. The company guided for 2023 revenue of between $1.154 billion and $1.174 billion, in-line with consensus estimates of $1.16 billion.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO/S			$1.78	$2.61	$2.51	$2.51	$2.08	$1.72	$1.68	$1.75	***$1.35***	***$1.75***
DPS			$1.64	$2.40	$2.40	$2.40	$0.00	$0.60	$0.60	$0.60	***$0.60***	***$0.70***
Shares[1]			150.5	155.8	175.4	183.1	193.3	232.9	236.3	235.8	***235.8***	***240.0***

Since the IPO in 2015, Uniti Group has struggled to grow AFFO per share as it has been weighed down by a heavy debt burden and significant troubles with a very large tenant. Eventually it was forced to renegotiate its lease and as a result has taken a hit to cash flows. However, the REIT is on much firmer footing today and is looking to reignite growth.

It is primarily working to drive this growth through refinancing its debt at significantly lower rates in order to generate increased cash flow from existing revenue streams while also leasing up its under-utilized assets. In the near-term, however, higher interest rates are delaying this tailwind, resulting in the large decline in AFFO per share expected in 2023. By adding leasing to its assets it can generate extremely high returns on investment capital as additional customers require minimal additional capital expenditures, but bring in strong cash flows. As a result, we expect Uniti Group to generate 5.3% annualized AFFO per share growth over the next half decade off of this year's lows.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/AFFO			11.0	10.5	9.7	7.4	6.3	4.0	6.8	8.3	***4.2***	***6.0***
Avg. Yld.			8.4%	8.8%	9.9%	12.9%	0.0%	8.7%	5.3%	4.1%	***10.9%***	***6.7%***

Uniti Group has traded at mid to high single digit P/AFFO multiples for most of its existence. That said, we believe it now deserves a higher multiple given that it is standing on stronger footing after it renegotiated the lease with its largest tenant and is now pivoting to growth.

With Uniti poised to grow AFFO per share at a steady clip moving forward while interest rates are rising, we assign a fair value P/AFFO multiple of 6x, which should provide a meaningful tailwind to total returns moving forward.

[1] In millions

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout			92%	92%	96%	96%	0%	35%	36%	34%	*44%*	*40%*

While Uniti Group's balance sheet is far from rock solid, it is on firmer footing and continuing to improve as management works to refinance debt to improve the maturity ladder as well as reduce interest costs. Furthermore, the trust is retaining a lot of cash right now thanks to the low payout ratio which it is using to deleverage and pursue growth opportunities which should in turn reduce leverage further.

Uniti's fiber assets are critical infrastructure in the regions in which it operates and therefore the REIT should enjoy fairly stable cash flows in the face of a recession. While its assets are mission critical, there is nothing unique about Uniti Group that gives it a durable competitive advantage. As a result, it lacks meaningful pricing power and therefore is unlikely to drive abnormally high profitability over time. The main source of total returns will be a combination of its stable cash flowing business model and multiple expansion to compensation for the current deep discount in shares.

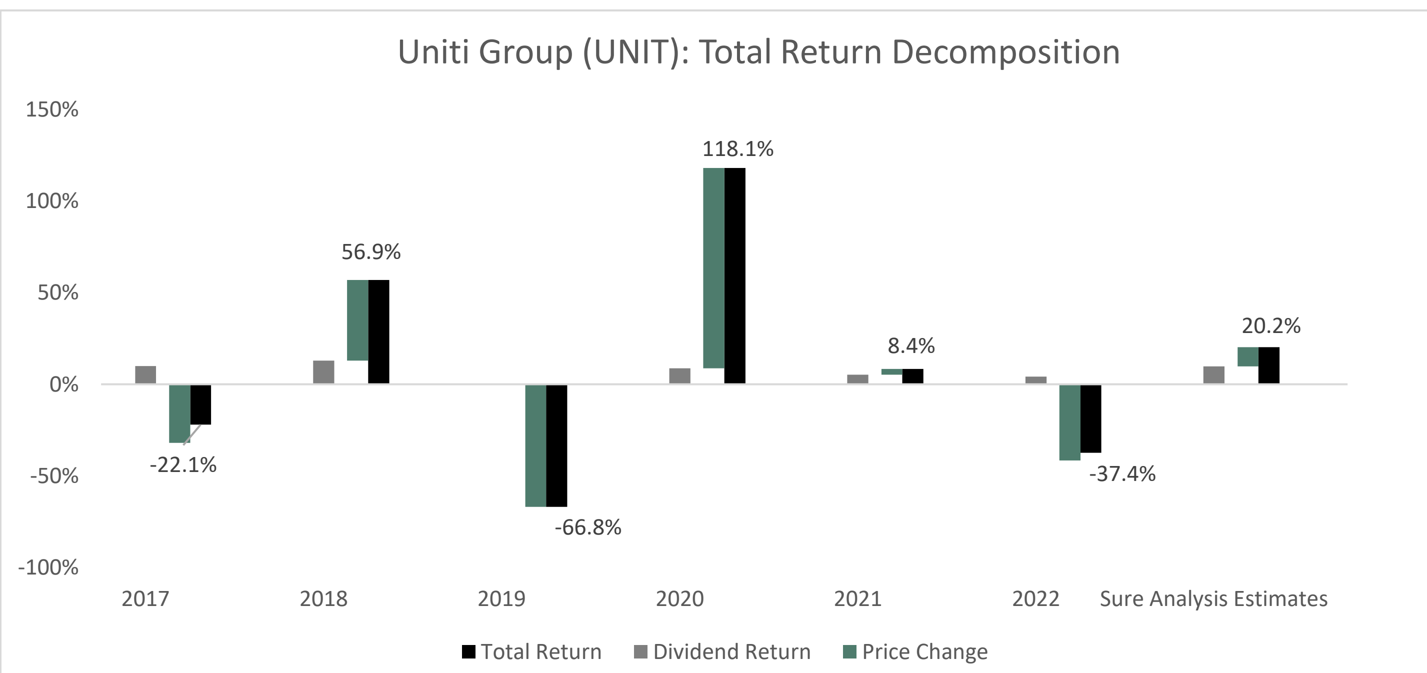
Given the low payout ratio, significant growth upside, and the mission critical and recession resistant nature of Uniti's assets, the dividend looks safe for the foreseeable future.

Final Thoughts & Recommendation

Uniti Group offers investors the best of all three investment approaches: a stable and attractive dividend with the potential for growth in the near future, a significantly undervalued business model that could lead to rapid price appreciation as the multiple expands, and growth opportunities in its fiber assets that should drive long term price appreciation.

While the balance sheet is not as strong as we would like to see it, and the management team needs to re-earn investor trust after its dubious past, Uniti's best days appear to be ahead of it and the 20.2% expected annualized total returns for the next half decade make it a Buy.

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	45	36		770	916	1,018	1,058	1,067	1,101	1,129
Gross Profit	22	17								
Gross Margin	48.5%	47.1%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A Exp.	0	0		35	72	85	103	105	101	101
D&A Exp.				376	434	452	406	329	291	293
Operating Profit	17	12		309	308	344	389	473	562	592
Operating Margin	36.6%	34.1%		40.2%	33.6%	33.8%	36.8%	44.4%	51.0%	52.4%
Net Profit	17	12		(0)	(9)	16	11	(706)	124	(8)
Net Margin	36.6%	34.1%		0.0%	-1.0%	1.6%	1.0%	-66.2%	11.2%	-0.7%
Free Cash Flow				341	239	49	267	(160)	113	33
Income Tax				1	(39)	(5)	5	(15)	(5)	(17)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	22	17	2,543	3,319	4,330	4,593	5,017	4,732	4,809	4,851
Cash & Equivalents			142	172	60	38	143	78	59	44
Accounts Receivable	3	2	14	44	91	166	80	76	80	111
Goodwill & Int. Ass.	19	14	11	423	1,103	1,125	1,223	993	967	696
Total Liabilities	10	8	3,710	4,641	5,454	6,000	6,500	6,804	6,923	7,122
Accounts Payable			10	41	78	94	227	146	87	122
Long-Term Debt	-	-		4,028	4,483	4,846	5,018	4,817	5,091	5,189
Shareholder's Equity	12	9	(1,167)	(1,402)	(1,309)	(1,586)	(1,567)	(2,142)	(2,128)	(2,274)
LTD/E Ratio	-	-		(3.05)	(3.66)	(3.23)	(3.20)	(2.25)	(2.39)	(2.28)

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		63.8%		0.0%	-0.2%	0.4%	0.2%	-14.5%	2.6%	-0.2%
Return on Equity		117.0%								
ROIC		117.0%		0.0%	-0.3%	0.5%	0.3%	-22.5%	4.3%	-0.3%
Shares Out.			150.5	155.8	175.4	183.1	193.3	232.9	236.3	235.8
Revenue/Share	0.30	0.24		5.05	5.42	5.75	5.64	5.24	4.17	4.79
FCF/Share				2.24	1.42	0.28	1.42	(0.79)	0.43	0.14

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