



# Agree Realty Corp. (ADC)

Updated April 3<sup>rd</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$69	<b>5 Year CAGR Estimate:</b>	9.0%	<b>Market Cap:</b>	\$6.19 B
<b>Fair Value Price:</b>	\$71	<b>5 Year Growth Estimate:</b>	4.5%	<b>Ex-Dividend Date:</b>	06/30/23 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	07/14/23 <sup>2</sup>
<b>Dividend Yield:</b>	4.2%	<b>5 Year Price Target</b>	\$88	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Agree Realty Corp. (ADC) is an integrated real estate investment trust (REIT) focused on ownership, acquisition, development, and retail property management. Richard Agree founded Agree Development Company in 1971, which is the predecessor to Agree Realty Corporation. Agree has developed over 40 community shopping centers throughout the Midwestern and Southeastern United States. At the end of December 2022, the company owned and operated 1,839 properties located in 48 states, containing approximately 38.1 million square feet of gross leasable space. The company's business objective is to invest in and actively manage a diversified portfolio of retail properties net leased to industry tenants. Agree Realty has a market capitalization of \$6.19 billion, and the company has been paying a growing dividend for eleven consecutive years.

On February 14<sup>th</sup>, 2023, Agree Realty Corp. reported fourth quarter and full year results for Full Year (FY)2022. The company invested \$421 million in 157 retail net lease properties during the quarter. Net income for the quarter, was unchanged to \$0.44 per share. However, Adjusted Funds from Operations (AFFO) increased 4.4% from \$0.91 per share in 4Q2021 to \$0.95 per share for the fourth quarter of 2022. Core Funds from Operations per share increased 4.3% to \$0.96 for the quarter. Total revenue was \$117 million, which is an increase of 27.5% year-over-year.

For the fiscal year, AFFO per share increased 9.1% to \$3.83 per share and Core FFO per share increased 8.1% to \$3.87 compared to the full year of 2021.

The company portfolio was 99.7% leased with a weight-average remaining lease term of approximately 8.8 years at the end of the quarter.

We expect the company to earn \$3.93 per share for 2023 which would be an increase of 1.6% compared to FY2022.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFO</b>	\$2.10	\$2.18	\$2.39	\$2.54	\$2.72	\$2.85	\$3.08	\$3.23	\$3.58	\$3.87	<b>\$3.93</b>	<b>\$4.90</b>
<b>DPS</b>	\$1.64	\$1.74	\$1.85	\$1.92	\$2.03	\$2.15	\$2.28	\$2.40	\$2.60	\$2.80	<b>\$2.96</b>	<b>\$3.78</b>
<b>Shares<sup>3</sup></b>	13.0	15.0	18.0	23.0	28.0	32.0	41.0	52.0	67.0	79.0	<b>79.0</b>	<b>79.0</b>

Agree Realty has grown AFFO by a compound rate of 7.0% over the past ten years. However, AFFO has increased by 6.6% per year over the past five years. We expect that Agree Realty will continue to grow but at a slightly slower pace of 4.5% annually for the next five years. Current growth prospects stem from the recent acquisitions announced for the year.

The company has a ten-year dividend growth rate of 6.1%. Although, it has been improving over the past five years with a growth rate of 6.6%. We predict that Agree Realty will continue to grow its dividend at a rate of 5% for the foreseeable future. However, there is room for more significant increases as the dividend payout ratio is low for a REIT.

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> 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
<b>P/AFFO</b>	13.6	14.0	14.3	18.4	19.1	20.9	23.2	20.8	20.3	18.3	<b>17.5</b>	<b>18.0</b>
<b>Avg. Yld.</b>	5.7%	5.6%	5.4%	4.2%	3.9%	3.7%	3.3%	3.6%	3.7%	4.0%	<b>4.2%</b>	<b>4.3%</b>

Over the past ten years, the company's average price to AFFO ratio has been 18.3x. We believe 18x AFFO is a reasonable valuation multiple. Thus, with shares trading at 15.5x times AFFO, this implies a modest valuation tailwind. Due to the higher P/AFFO, the dividend yield has slowly decreased over the years. In 2011, the dividend yield was as high as 6.6%. Now Agree Realty's dividend yield is 4.2%, implying moderate overvaluation compared to the past.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

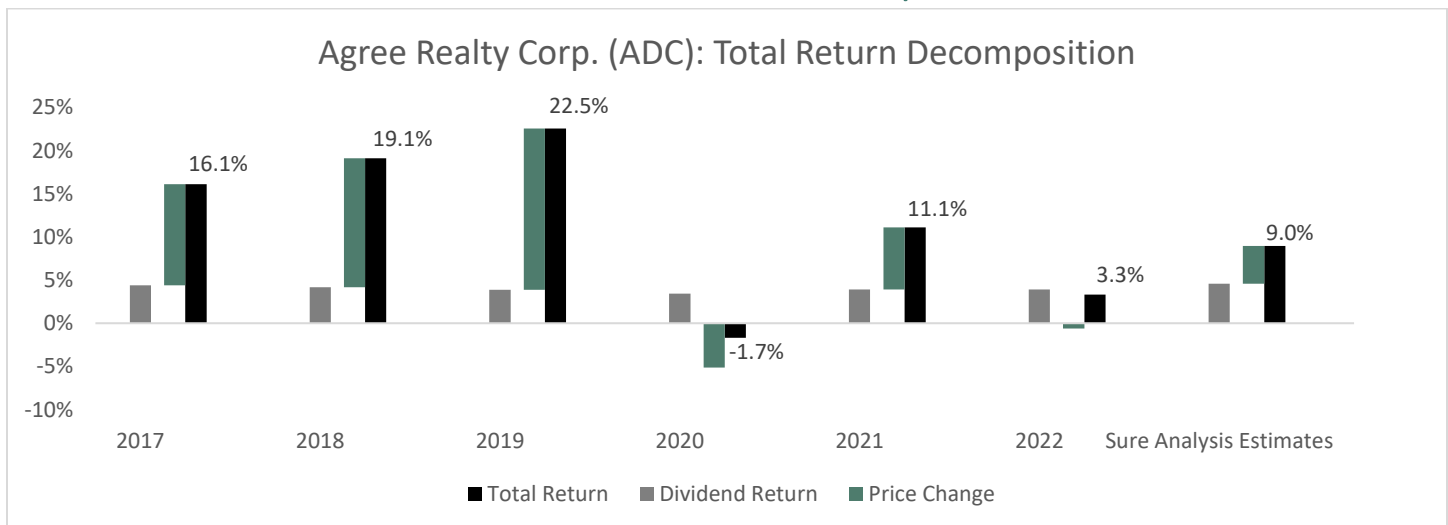
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	78.1%	79.8%	77.4%	75.6%	74.6%	75.4%	74.0%	74.3%	72.6%	72.4%	<b>75%</b>	<b>77%</b>

Agree Realty Corp's most important competitive advantage is the management team. AFFO grew by 5% in 2008 and 11% during the last recession in 2009. During the COVID-19 pandemic, Agree Realty continued to pay out its dividend and increased it by 3% in December. As noted above, Agree Realty increased AFFO by 8.1% in 2022. This speaks volumes regarding Agree Realty's resilience. Agree Realty also has a solid balance sheet. The company has a BBB credit rating from S&P and a debt-to-equity ratio of 0.4.

## Final Thoughts & Recommendation

Agree Realty Corp. is a high-quality company with a relatively high P/AFFO ratio over the past five years. There is minimal risk, considering that Agree Realty has an outstanding balance sheet, and the company was able to go through the COVID-19 pandemic with minimal hiccups. The company is fairly valued at today's price, in our view. We estimate a 5-year annual return of 9.0% going forward, stemming from 4.5% growth, a 4.2% dividend yield, and a valuation tailwind. Thus, shares earn a Hold rating at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	44	54	70	92	112	137	187	249	339	430
<b>Gross Profit</b>	40	49	64	83	99	120	164	217	298	378
<b>Gross Margin</b>	91.6%	90.8%	90.9%	90.6%	88.8%	87.6%	87.5%	87.2%	87.9%	87.8%
<b>SG&amp;A Exp.</b>	6	7	7	8	9	12	16	21	25	30
<b>D&amp;A Exp.</b>	9	11	16	23	32	44	59	83	120	167
<b>Operating Profit</b>	25	31	40	52	63	75	103	129	177	214
<b>Operating Margin</b>	58.4%	57.7%	57.3%	56.4%	56.5%	54.9%	54.8%	52.0%	52.2%	49.8%
<b>Net Profit</b>	20	18	39	45	58	58	80	91	122	152
<b>Net Margin</b>	45.2%	34.5%	55.8%	49.3%	52.1%	42.4%	42.7%	36.8%	36.0%	35.5%
<b>Free Cash Flow</b>	29	35	45	62	82	93	127	143	246	362
<b>Income Tax</b>	---	---	---	0	0	1	1	1	2	3

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	463	594	790	1,142	1,495	2,028	2,665	3,886	5,227	6,713
<b>Cash &amp; Equivalents</b>	15	5	3	33	51	54	16	6	43	28
<b>Accounts Receivable</b>	3	5	7	12	15	22	27	38	53	66
<b>Goodwill &amp; Int. Ass.</b>	28	47	77	140	195	280	344	474	672	799
<b>Total Liabilities</b>	171	238	336	456	583	790	973	1,360	1,808	2,083
<b>Accounts Payable</b>	3	3	3	6	11	21	49	71	70	84
<b>Long-Term Debt</b>	158	222	317	401	520	720	872	1,218	1,688	1,940
<b>Shareholder's Equity</b>	290	354	451	683	909	1,236	1,689	2,524	3,243	4,454
<b>LTD/E Ratio</b>	0.55	0.63	0.70	0.59	0.57	0.58	0.52	0.48	0.49	0.42

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.7%	3.5%	5.6%	4.7%	4.4%	3.3%	3.4%	2.8%	2.7%	2.6%
<b>Return on Equity</b>	8.1%	5.7%	9.7%	8.0%	7.3%	5.4%	5.5%	4.3%	4.2%	4.0%
<b>ROIC</b>	4.9%	3.6%	5.8%	4.9%	4.6%	3.4%	3.5%	2.9%	2.8%	2.6%
<b>Shares Out.</b>	13.0	15.0	18.0	23.0	28.0	32.0	41.0	52.0	67.0	79.2
<b>Revenue/Share</b>	3.31	3.58	3.87	3.99	4.03	4.23	4.55	4.74	5.05	5.43
<b>FCF/Share</b>	2.24	2.34	2.47	2.69	2.97	2.88	3.07	2.73	3.67	4.57

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

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