



STAG Industrial (STAG)

Updated April 26th, 2023 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|----------------------------------|-----------|
| Current Price: | \$33 | 5 Year CAGR Estimate: | 9.9% | Market Cap: | \$6.1 B |
| Fair Value Price: | \$36 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 5/30/2023 |
| % Fair Value: | 93% | 5 Year Valuation Multiple Estimate: | 1.5% | Dividend Payment Date: | 6/15/2023 |
| Dividend Yield: | 4.5% | 5 Year Price Target | \$45 | Years Of Dividend Growth: | 12 |
| Dividend Risk Score: | D | Retirement Suitability Score: | D | Rating: | Hold |

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 563 buildings across 41 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$6.1 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 53% of the tenants are publicly rated and 31% of the tenants are rated "investment grade." The company typically does business with established tenants to reduce risk.

In late April, STAG Industrial reported (4/26/23) financial results for the first quarter of fiscal 2023. Core FFO per share grew 4% over the prior year's quarter, in line with the analysts' consensus, thanks to the sustained strength of the REIT's tenants and material hikes in rent rates. Net operating income grew 8% over the prior year's quarter but the occupancy rate dipped sequentially from 98.5% to 97.6%. STAG Industrial is facing a headwind due to the pandemic and the ongoing economic slowdown. However, the REIT has proved fairly resilient so far thanks to the high credit profile of its tenants. The REIT has collected essentially all its rental income in the last eight quarters. STAG Industrial has provided guidance for core FFO per share of \$2.22-\$2.26 in 2023. We still expect FFO per share of \$2.25 and note that the REIT has not missed the analysts' estimates for 21 consecutive quarters.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| FFO | \$1.44 | \$1.33 | \$1.42 | \$1.43 | \$1.70 | \$1.80 | \$1.84 | \$1.89 | \$2.06 | \$2.21 | \$2.25 | \$2.87 |
| DPS | \$1.20 | \$1.29 | \$1.36 | \$1.39 | \$1.41 | \$1.42 | \$1.43 | \$1.44 | \$1.45 | \$1.46 | \$1.47 | \$1.52 |
| Shares¹ | 42.4 | 53.2 | 66.6 | 69.8 | 100.2 | 115.1 | 137.8 | 150.5 | 173.7 | 179.4 | 185.0 | 320.0 |

STAG Industrial has grown its FFO per share at a 4.9% average annual rate over the last decade and at a 5.4% average annual rate over the last five years. The U.S. industrial market is more than \$1 trillion in size and STAG Industrial still has a market share that is less than 1% of its target market, which includes the top 60 markets of the country. Therefore, the REIT has ample room to continue to grow for years. As STAG Industrial has proved fairly resilient to the ongoing economic slowdown, we expect it to grow its FFO per share around its historical pace in the upcoming years. If the REIT grows its FFO per share at a 5.0% annual rate, its FFO per share will grow from \$2.25 this year to \$2.87 in 2028.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg P/FFO | 14.2 | 18.4 | 13.0 | 16.7 | 16.4 | 14.5 | 16.0 | 15.6 | 18.6 | 15.8 | 14.7 | 15.8 |
| Avg. Yld. | 5.7% | 5.6% | 6.4% | 6.4% | 5.3% | 5.5% | 4.9% | 4.9% | 3.8% | 4.2% | 4.5% | 3.4% |

¹ In millions.

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STAG Industrial is currently trading at a P/FFO ratio of 14.7, which is lower than its historical average of 15.8. If the stock trades at its average valuation level in five years, it will enjoy a 1.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 83.3% | 97.0% | 95.8% | 97.2% | 84.4% | 78.9% | 77.7% | 76.2% | 70.4% | 66.1% | 65.3% | 53.0% |

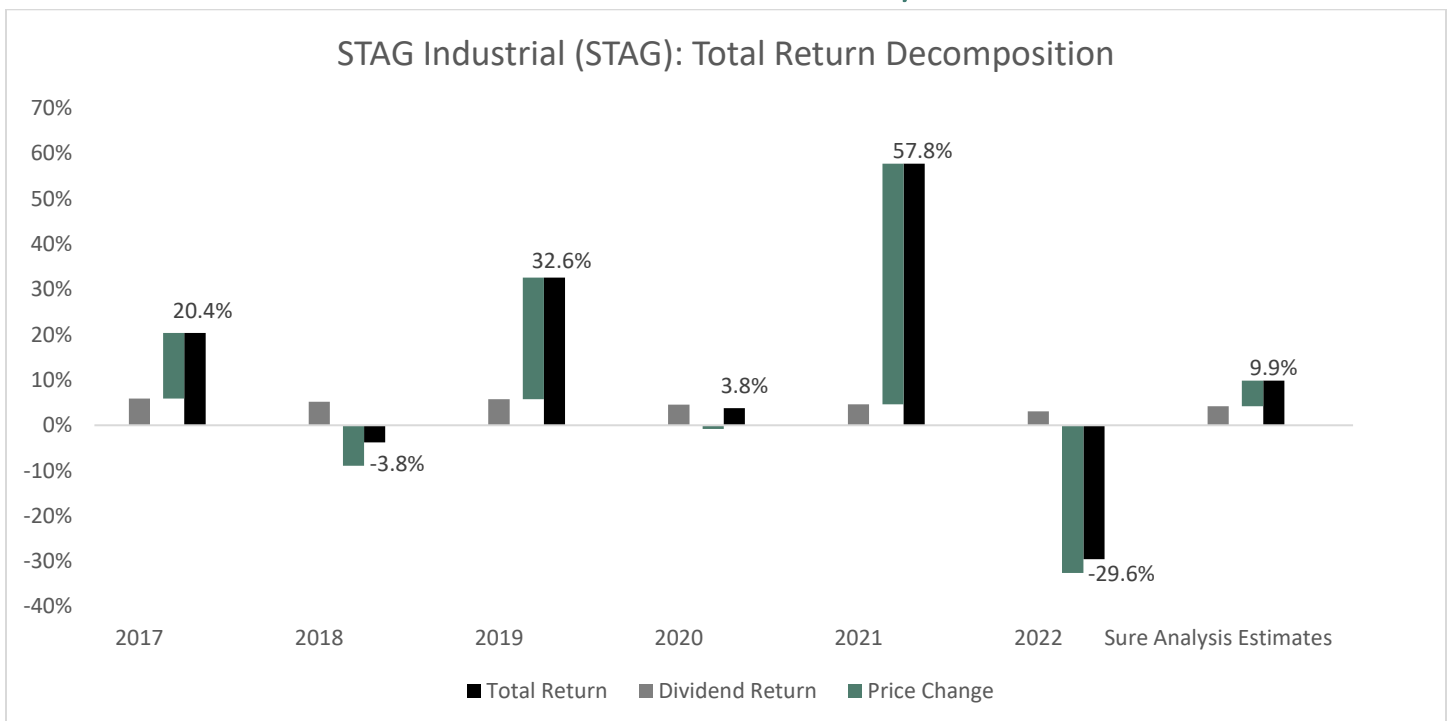
STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 4.9 years and about half of the leases maturing after the end of 2025. Thus, the cash flows of the REIT can be considered fairly reliable under normal business conditions. STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a 4.5% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years. Nevertheless, the REIT has raised its annual dividend by less than 1% in each of the last seven years. Therefore, investors should not expect meaningful dividend growth going forward. Moreover, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than quadrupled, from 42 million in 2013 to 179 million now.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. On the bright side, the pandemic has hardly affected the performance of STAG Industrial, mostly thanks to the swift recovery of the economy amid huge fiscal stimulus packages.

Final Thoughts & Recommendation

STAG Industrial has proved markedly resilient to the pandemic and the ongoing economic slowdown, partly thanks to the strong profile of most of its tenants. We expect the stock to offer a 9.9% average annual return over the next five years thanks to 5.0% growth, its 4.5% dividend and a 1.5% valuation tailwind. We thus maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 134 | 174 | 219 | 250 | 301 | 351 | 406 | 483 | 562 | 657 |
| Gross Profit | 110 | 140 | 176 | 201 | 243 | 282 | 331 | 394 | 454 | 532 |
| Gross Margin | 82.1% | 80.8% | 80.5% | 80.5% | 80.8% | 80.3% | 81.5% | 81.5% | 80.8% | 81.0% |
| SG&A Exp. | 18 | 26 | 29 | 33 | 33 | 34 | 36 | 40 | 49 | 47 |
| D&A Exp. | 71 | 88 | 110 | 125 | 155 | 172 | 190 | 219 | 241 | 275 |
| Operating Profit | 24 | 26 | 37 | 43 | 59 | 80 | 109 | 139 | 167 | 210 |
| Op. Margin | 18.3% | 15.1% | 16.8% | 17.0% | 19.6% | 22.9% | 26.9% | 28.8% | 29.7% | 32.0% |
| Net Profit | 6 | (4) | (27) | 35 | 31 | 93 | 49 | 202 | 192 | 178 |
| Net Margin | 4.1% | -2.1% | -12.5% | 13.8% | 10.4% | 26.5% | 12.1% | 41.8% | 34.2% | 27.1% |
| Free Cash Flow | 8 | 10 | 36 | 46 | 66 | 87 | 28 | 179 | 176 | 335 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| Total Assets | 1270 | 1629 | 1902 | 2186 | 2681 | 3103 | 4165 | 4,693 | 5,833 | 6,185 |
| Cash & Equivalents | 7 | 24 | 12 | 12 | 25 | 8 | 9 | 16 | 19 | 26 |
| Accounts Receivable | 14 | 17 | 21 | 25 | 34 | 42 | 58 | 78 | 94 | 116 |
| Goodwill & Int. Ass. | --- | 248 | 276 | 295 | 313 | 342 | 475 | 500 | 568 | 509 |
| Total Liabilities | 596 | 738 | 1044 | 1119 | 1270 | 1433 | 1801 | 1,922 | 2,440 | 2,727 |
| Accounts Payable | 19 | 22 | 26 | 35 | 43 | 46 | 54 | 70 | 76 | 97 |
| Long-Term Debt | 556 | 686 | 980 | 1036 | 1174 | 1326 | 1645 | 1,703 | 2,218 | 2,499 |
| Shareholder's Equity | 464 | 725 | 683 | 882 | 1214 | 1539 | 2231 | 2,641 | 3,328 | 3,385 |
| LTD/E Ratio | 0.92 | 0.79 | 1.19 | 1.01 | 0.86 | 0.82 | 0.71 | 0.63 | 0.67 | 0.74 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.5% | -0.3% | -1.6% | 1.7% | 1.3% | 3.2% | 1.4% | 4.6% | 3.7% | 3.0% |
| Return on Equity | 1.3% | -0.6% | -3.9% | 4.4% | 3.0% | 6.8% | 2.6% | 8.3% | 6.4% | 5.3% |
| ROIC | 0.5% | -0.3% | -1.6% | 1.8% | 1.3% | 3.3% | 1.4% | 4.8% | 3.8% | 3.1% |
| Shares Out. | 42.4 | 53.2 | 66.6 | 69.8 | 100.2 | 115.1 | 137.8 | 150.5 | 173.7 | 178.9 |
| Revenue/Share | 3.16 | 3.21 | 3.30 | 3.53 | 3.35 | 3.38 | 3.23 | 3.24 | 3.43 | 3.67 |
| FCF/Share | 1.95 | 1.79 | 1.84 | 1.92 | 1.80 | 1.91 | 0.22 | 1.23 | 1.07 | 1.87 |

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

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