



# Gladstone Land Corporation (LAND)

Updated May 13<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$15.57	<b>5 Year CAGR Estimate:</b>	8.5%	<b>Market Cap:</b>	\$555 M
<b>Fair Value Price:</b>	\$16	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	06/16/23 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.7%	<b>Dividend Payment Date:</b>	06/30/23
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$21	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Gladstone Land Corporation is a real estate investment trust, or REIT, that specializes in the owning and operating of farmland in the U.S. The trust owns about 160 farms, comprising more than 110,000 acres of farmable land. Gladstone's business is made up of three different options available to farmers, all of which are done on a triple-net basis. The trust offers long-term sale leaseback transactions, traditional leases of farmland, and outright purchases of farm properties. Gladstone's portfolio has an appraised value of over \$1.5 billion, and the stock trades with a market capitalization of \$555 million. The trust went public in early 2013 after having been founded in 1997.

Gladstone posted first quarter earnings on May 8<sup>th</sup>, 2023, and results were weaker than expected. The bottom line met estimates at 18 cents per share in funds-from-operations. However, revenue was \$0.7 million light against expectations at \$21.2 million, despite rising more than 6% year-over-year.

Results were crimped by "issues" the trust is working through with a few of its tenants. Management also noted acquisition activity is slow, as the company is being conservative with its investment capital. Gladstone expects demand for food and crop pricing to continue to stay strong.

Operating expenses were \$13.8 million, down from \$15.2 million in the prior quarter, and down from \$19.9 million in the year-ago period. Net asset value ended the quarter at \$17.12 per share, up fractionally from Q4, but up from \$15.54 in the year-ago quarter.

We now see 70 cents in FFO-per-share for this year after cautious commentary from management.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFO</b>	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.57	\$0.66	\$0.70	\$0.74	<b>\$0.70</b>	<b>\$0.89</b>
<b>DPS</b>	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.54	\$0.55	<b>\$0.55</b>	<b>\$0.58</b>
<b>Shares<sup>2</sup></b>	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	35.7	<b>37.0</b>	<b>40.0</b>

Gladstone's growth has been irregular since it went public in 2013, although that growth has settled down a bit recently. From 2016 to 2018, Gladstone produced just over \$0.50 in AFFO-per-share annually, which is below where we see long-term earnings potential after recent acquisitions. With margins once again moving in the right direction, we think Gladstone can grow at 5% annually over the long-term. Acquisitions and rent escalations are likely to be the only sources of AFFO growth in the coming years, as has been the case for some time.

Growth in the trust's portfolio will drive higher rental revenues, but Gladstone continues to suffer from relatively high funding costs. It issues preferred stock with coupons in the mid-to-high single-digits, and issues common stock that has not only an implied cost of a higher share count, but also a dividend yield of ~3.5%. With capitalization rates in the mid-single digits, it is very difficult for Gladstone to issue such expensive capital and then profitably invest it in new properties. Given this, Gladstone must tightly control operating expenses to move the needle on a per-share basis, which it has struggled to accomplish at times in the past. We see this as continuing for the foreseeable future unless it

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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finds a cheaper way to fund acquisitions. We note recent financing activity has been completed at more favorable rates, given that the share price has moved much higher, which should help boost the trust's margins further in the years to come. The REIT has said it is waiting out this period of higher interest rates as financing cannot be completed at favorable rates at the moment, highlighting this risk.

The dividend was raised fractionally most recently as Gladstone appears to have hit the maximum dividend it can pay until AFFO-per-share increases. The most recent increase was just 0.4%, and while the dividend increase streak is now up to nine years, the dividend is very little changed from a few years ago.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	100.7	49.3	25.8	18.9	22.0	24.8	21.2	21.6	32.3	25.8	22.2	23.0
Avg. Yld.	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	2.4%	3.0%	3.5%	2.8%

Gladstone's price-to-AFFO has been very high in recent years and sits at 22.2 today. We see fair value, given its projected growth and maxed out dividend, at 23 times AFFO. That implies little impact from the valuation.

The yield is 3.5% today and we see it declining over time as the share price should rise more quickly than the dividend payment.

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

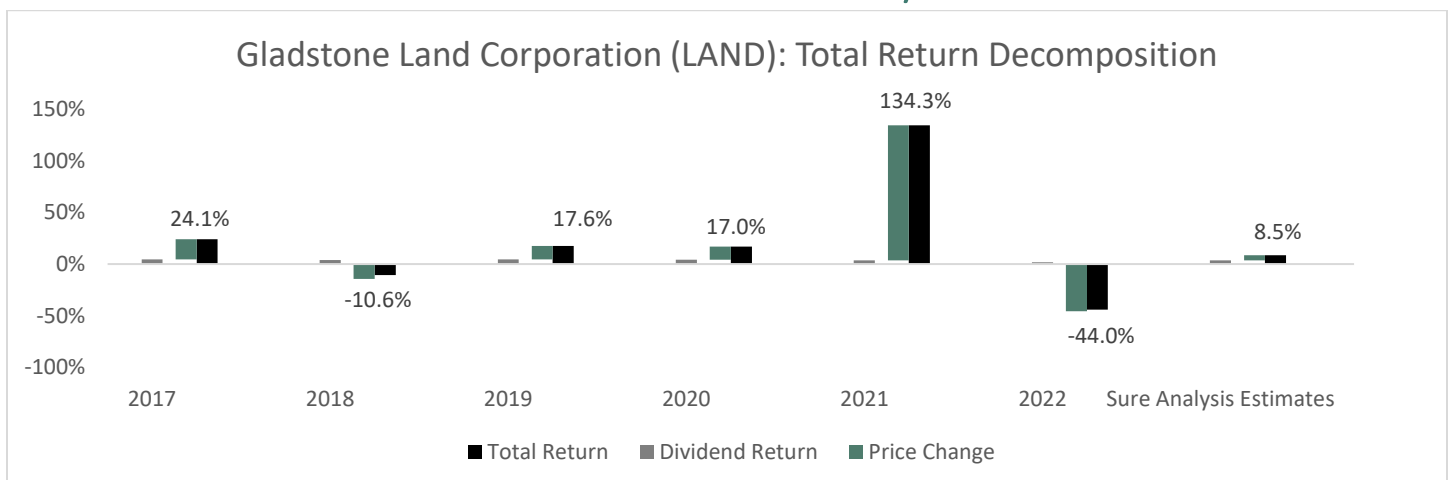
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	144%	118%	93%	93%	104%	93%	82%	77%	74%	79%	65%

Gladstone offers farmers a diverse portfolio of high-quality properties, but it doesn't necessarily have a competitive advantage. Recessions may hurt the trust's earnings as farmers that operate on low margins may struggle if a downturn occurs. Weather is another risk factor for Gladstone and its farmers, as crop destruction can occur for a variety of reasons. The dividend should be sustainable at 79% of AFFO-per-share for this year.

## Final Thoughts & Recommendation

Gladstone's share price has performed quite poorly in recent months, which has drastically improved its yield, valuation, and total return prospects. We forecast total annual returns of 8.5%, consisting of the dividend yield of 3.5% and growth of 5%, with a small impact from the valuation. Given this, we're reiterating at a 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
<b>Revenue</b>	4	7	12	17	25	37	41	57	75	89
<b>Gross Profit</b>	4	7	11	17	24	35	38	55	73	86
<b>Gross Margin</b>	97.0%	94.0%	93.3%	95.5%	94.7%	94.4%	93.9%	96.8%	96.6%	96.6%
<b>SG&amp;A Exp.</b>	2	3	3	4	4	5	5	8	10	13
<b>D&amp;A Exp.</b>	1	2	3	5	7	9	13	17	27	35
<b>Operating Profit</b>	2	2	5	7	11	12	19	28	32	34
<b>Operating Margin</b>	37.4%	29.5%	42.3%	42.2%	45.3%	33.0%	47.4%	48.5%	42.1%	38.2%
<b>Net Profit</b>	(1)	(0)	1	0	(0)	3	2	5	3	5
<b>Net Margin</b>	-30.3%	-1.7%	4.8%	2.6%	-0.1%	7.2%	4.3%	8.6%	4.6%	5.6%
<b>Free Cash Flow</b>	(1)	1	2	(1)	1	(12)	9	8	26	24
<b>Income Tax</b>	2	0	---	---	---	---	---	---	---	---

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	94	152	229	334	462	565	817	1,067	1,352	1,457
<b>Cash &amp; Equivalents</b>	16	3	3	2	3	15	14	9	17	61
<b>Inventories</b>	---	---	---	---	2	---	---	---	---	---
<b>Goodwill &amp; Int. Ass.</b>	0	1	2	2	5	6	5	4	4	6
<b>Total Liabilities</b>	45	92	151	246	344	384	538	683	762	726
<b>Accounts Payable</b>	1	2	3	3	7	9	10	9	11	16
<b>Long-Term Debt</b>	43	86	142	207	301	336	482	624	668	627
<b>Shareholder's Equity</b>	49	60	78	77	110	176	277	384	587	731
<b>LTD/E Ratio</b>	0.89	1.44	1.82	2.70	2.74	1.91	1.74	1.63	1.14	0.86

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%	0.3%	0.5%	0.3%	0.3%
<b>Return on Equity</b>	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%	0.8%	1.5%	0.7%	0.7%
<b>ROIC</b>	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%	0.3%	0.6%	0.3%	0.4%
<b>Shares Out.</b>	6.2	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	34.6
<b>Revenue/Share</b>	0.65	1.05	1.38	1.73	2.08	2.37	2.08	2.56	2.48	2.58
<b>FCF/Share</b>	(0.20)	0.13	0.17	(0.14)	0.11	(0.79)	0.46	0.38	0.86	0.68

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

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