Essential Properties Realty Trust Inc (EPRT)

Updated July 27th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$3.9 B
Fair Value Price:	$25	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	09/29/2023
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date[2]:**	09/30/2023
Dividend Yield:	4.5%	**5 Year Price Target:**	$33	**Years of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Essential Properties Realty Trust Inc is a real estate investment trust which acquires, owns, and manages single-tenant properties that are leased on a long-term basis to middle-market companies who operate service-oriented or experience-based businesses. Such businesses include restaurants, car washes, automotive services, medical services, convenience stores, entertainment, health & fitness, and early childhood education. The trust owns or has an interest in 1,742 properties spanning 17.2 million square footage. There are 360 diverse tenants across 16 industries in 48 states. The diversified REIT trades on the NYSE under the ticker symbol EPRT. The Trust has a market capitalization of $3.9 billion and is headquartered in Princeton, New Jersey.

On June 12th, 2022, Essential Properties announced a two cent dividend increase to $1.12 annually.

Essential Properties reported second quarter 2023 results on July 26th, 2023, for the period ending June 30th, 2023. For the quarter, funds from operations increased by 5% year-over-year to $0.43 per share. Adjusted FFO rose by 8% to $0.41 per share. At the end of the quarter, the weighted average occupancy stood at 99.9%. The properties are under a weighted average lease term of 14.0 years with a weighted average rent coverage ratio of 4.1x.

Leadership's upgraded its 2023 guidance and calls for adjusted FFO to be between $1.62 to $1.65 for the full year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFOPS						$0.78	$1.14	$1.11	$1.34	$1.53	***$1.64***	***$2.19***
DPS						$0.43	$0.88	$0.93	$0.98	$1.07	***$1.12***	***$1.43***
Shares[3]						61.8	75.3	96.2	117.5	135.9	***155.0***	***180.0***

EPRT was formed in mid-2018, so our results only go back so far. Considering that 2018 data only spans June 25th to December 31st, year-over-year comparisons can only truly begin with the year 2019, therefore there is little data from which to base future expectations off.

Based on the data we do possess; Essential Properties increased their adjusted funds from operations by 10% and 17% on average over the last three and two years. We estimate the trust can grow AFFO per share by roughly 6% annualized going forward. The trust believes they can achieve growth through further sale-leaseback transactions with middle-market companies. So far, 88% of sale-leasebacks are internally originated, and the trust has on average over the last two years invested roughly $240 million per quarter into growing the business. The trust also believes their balance sheet is well positioned to fund external growth opportunities, all the while maintaining their conservative leverage profile. The trust has nearly $634 million in available liquidity as of June 30th, 2023.

We see further share issuance in the future as this real estate trust appears to just be getting started, however this capital should go into growing the portfolio. According to leadership, EPRT has the highest 2023 forecasted AFFO per share growth of around 7% in its particular industry (second highest was Netstreit).

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[1] Estimate
[2] Estimate
[3] In thousands

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	2023	2028
Avg. P/AFFO						17.8	18.3	16.5	19.9	15.3	***15.2***	***15.0***
Avg. Yld.						3.1%	3.4%	5.3%	3.6%	4.3%	***4.5%***	***4.3%***

Essential Properties has traded at a price-to-adjusted funds from operations ratio of 17.6 on average since inception in 2018. Today shares are trading at 15.2 times estimated 2023 AFFO, while we believe fair value is closer to 15.0 times AFFO. This decrease in valuation could result in losses of -0.2% per year on average over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout						55%	77%	84%	73%	70%	***68%***	***65%***

The payout ratio for EPRT is calculated as dividends per share divided by AFFO per share. The payout ratio has been healthy since the inception of the trust, and we see this as continuing. The yield is not as astronomical as many REITs with higher payout ratios flaunt, as the trust is still in its growth phase.

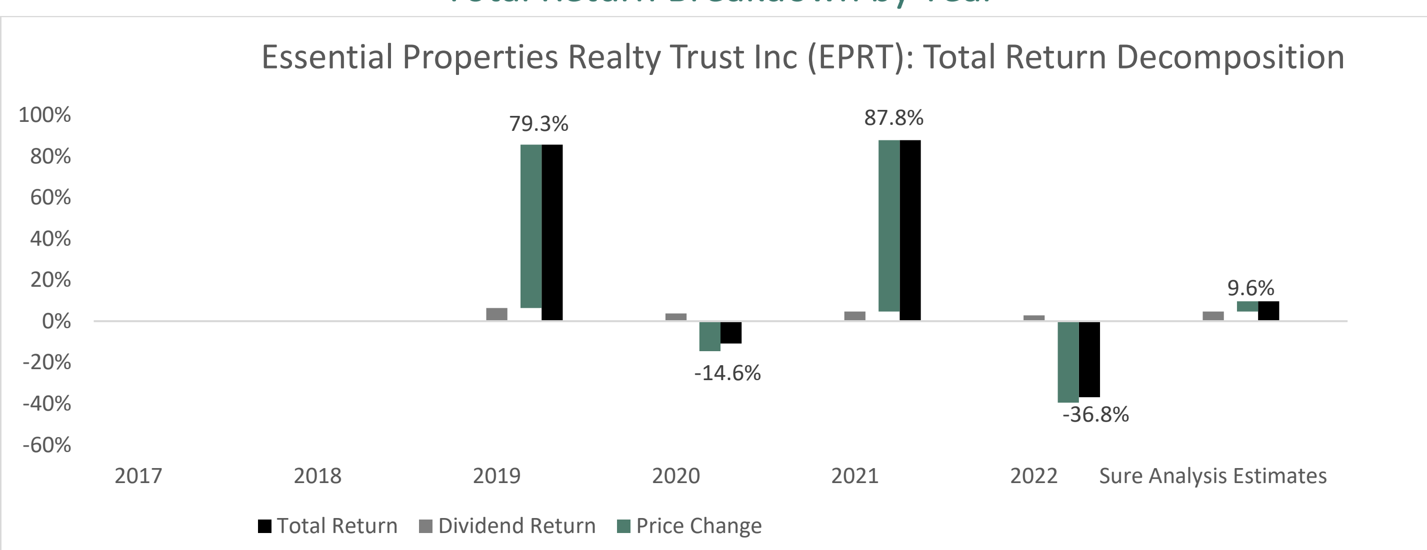
Essential Properties trust only began operating a few years ago, and thus we have no information dating back to the great financial crisis, but we would anticipate a large number of bankruptcies from so many diverse service-oriented businesses. However, the trust made it through the COVID-19 pandemic practically unscathed on an AFFO basis (down 3% from 2019 to 2020), despite share count rising massively from the onset of the pandemic.

A competitive advantage of EPRT is their focus on leasing to service-oriented businesses, and in doing so, they have tenants that are well-positioned to withstand competition from e-commerce business, which in turn increases the stability and predictability of the Trust's rental revenue.

Final Thoughts & Recommendation

Essential Properties Realty is a relatively new REIT and has strong expected AFFO growth compared to peers this year. The Trust appears to be a budding dividend growth REIT as they have raised it a couple times since inception. We believe shares are trading just above fair value, at 101% of our estimated fair value. The trust's annualized expected returns come in at 9.6% in the intermediate term, so we are reiterating 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					54	96	139	164	230	287
Gross Profit					53	94	136	160	224	283
Gross Margin					97.2%	97.9%	97.8%	97.6%	97.5%	98.8%
SG&A Exp.					9	14	22	24	24	29
D&A Exp.					20	31	43	59	69	88
Operating Profit					25	49	72	75	131	165
Op. Margin					45.2%	51.1%	51.5%	46.0%	57.0%	57.6%
Net Profit					6	16	42	42	96	134
Net Margin					11.6%	16.2%	30.0%	25.8%	41.6%	46.8%
Free Cash Flow					22	46	89	99	167	211
Income Tax					0	0	0	0	0	1

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets				466	942	1,381	1,975	2,489	3,299	4,000
Cash & Equivalents				2	7	4	8	27	60	62
Accts. Recv.				1	5	14	42	63	84	102
Goodwill				56	62	66	79	80	88	
Total Liabilities				292	761	570	773	907	1,255	1,503
Long-Term Debt					742	540	727	815	1,166	1,421
Total Equity				175	181	562	1,194	1,575	2,037	2,488
LTD/E Ratio					4.09	0.96	0.61	0.52	0.57	0.57

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets						1.3%	2.5%	1.9%	3.3%	3.7%
Return on Equity					3.5%	4.2%	4.8%	3.1%	5.3%	5.9%
ROIC						1.4%	2.6%	2.0%	3.4%	3.8%
Shares Out.						61.8	75.3	96.2	117.5	135.9
Revenue/Share					1.33	2.20	1.85	1.70	1.96	2.11
FCF/Share					0.55	1.05	1.18	1.03	1.43	1.55

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