



# Gladstone Land Corporation (LAND)

Updated August 15<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$16.33	<b>5 Year CAGR Estimate:</b>	5.1%	<b>Market Cap:</b>	\$590 M
<b>Fair Value Price:</b>	\$15.64	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	09/20/23
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.9%	<b>Dividend Payment Date:</b>	09/29/23
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$18	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	F	<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 \$590 million. The trust went public in early 2013 after having been founded in 1997.

Gladstone posted second quarter earnings on August 7<sup>th</sup>, 2023, and results were somewhat weak. The trust noted funds-from-operations per-share of 12.3 cents, which was light against expectations. Revenue was up 4.5% year-over-year to \$21.2 million, but missed expectations fractionally.

The trust noted it was working through "issues with a few tenants", and said they should be resolved in the next few months. However, it took a toll on revenue and earnings in Q2.

The CEO noted higher interest rates were impacting its ability to acquire new farms, which we find to be a meaningful headwind going forward, potentially. Gladstone said the cost to finance new acquisitions had increased, but farm owners weren't lowering pricing. That has resulted in the inability for new buys to cover Gladstone's cost of capital, meaning it is unable to grow its portfolio. Worryingly, Gladstone executed 12 new or amended lease agreements on farms during the quarter that are expected to decrease net operating income by \$530k collectively on an annual basis, highlighting the challenges Gladstone is facing.

Operating expenses totaled \$13.4 million, down from \$13.8 million in Q1, but up from \$12.2 million a year ago. Net asset value ended the quarter at \$19.15 per share, up from \$17.12 in Q1, and up sharply from \$15.60 in the year-ago period. We now see 68 cents in adjusted FFO per-share this year after weak Q2 results.

## 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>\$0.68</b>	<b>\$0.79</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>1</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 and revenue growth now both sources of concern, we see growth at just 3% going forward. 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 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 3.4%. With capitalization rates in the mid-single

<sup>1</sup> Share count in millions

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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 finds a cheaper way to fund acquisitions. We note recent lease renewals were done at unfavorable rates, at the same time as the acquisition landscape is quite negative. 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	24.0	23.0
Avg. Yld.	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	2.4%	3.0%	3.4%	3.2%

Gladstone's price-to-AFFO has been very high in recent years and sits at 24 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 3.4% 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

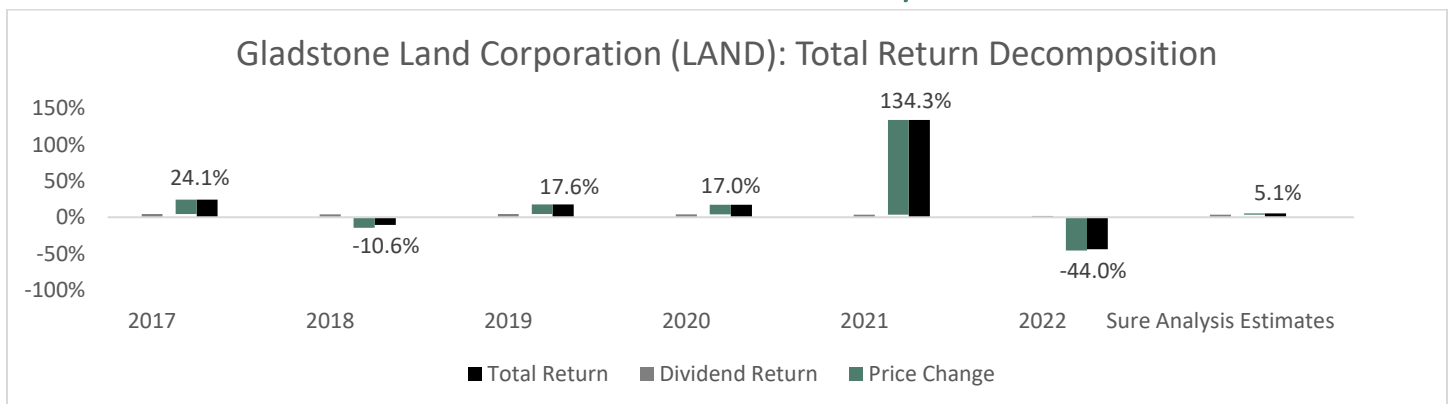
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	144%	118%	93%	93%	104%	93%	82%	77%	74%	81%	73%

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 81% 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 5.1%, consisting of the dividend yield of 3.4% and growth of 3%, 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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