



# Agree Realty Corp. (ADC)

Updated November 11<sup>th</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$57	<b>5 Year CAGR Estimate:</b>	12.7%	<b>Market Cap:</b>	\$5.7 B
<b>Fair Value Price:</b>	\$71	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	11/29/23
<b>% Fair Value:</b>	80%	<b>5 Year Valuation Multiple Estimate:</b>	4.6%	<b>Dividend Payment Date:</b>	12/14/23
<b>Dividend Yield:</b>	5.2%	<b>5 Year Price Target</b>	\$87	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## 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 \$5.7 billion, and the company has been paying a growing dividend for eleven consecutive years.

On October 24<sup>th</sup>, 2023, Agree Realty Corp. reported third quarter results for Fiscal Year (FY)2023. The company revealed significant investment activity and positive performance metrics. The company invested \$411 million in 98 retail net lease properties and completed eight development projects totaling over \$41 million in committed capital. Despite a 12.4% decrease in net income per share attributable to common stockholders, the Core Funds from Operations (Core FFO) per share increased by 2.1% to \$0.99, and Adjusted Funds from Operations (AFFO) per share rose by 4.2% to \$1.00. The quarter also saw strategic financial moves, including a \$350 million 5.5-year term loan at a 4.52% fixed rate, share sales generating \$87 million in net proceeds, and a balanced balance sheet with a 4.5 times net debt to recurring EBITDA ratio. In terms of net income, the three-month period ending September 30, 2023, showed a 5.6% increase to \$39.7 million, compared to the same period in 2022. However, the net income per share declined by 12.4% to \$0.41. The Core FFO for the quarter increased significantly by 23.3% to \$96.4 million, translating to a 2.1% growth in Core FFO per share to \$0.99. Similarly, AFFO for the quarter rose by 25.8% to \$97.6 million, with AFFO per share increasing by 4.2% to \$1.00. The company maintained a shareholder-friendly dividend policy, declaring an October monthly dividend of \$0.247 per common share, marking a 2.9% year-over-year increase.

Looking beyond the quarter, Agree Realty Corporation reported strong performance for the nine months ending September 30, 2023, with notable increases in Net Income, Core FFO, and AFFO. The company's strategic financial moves, coupled with its commitment to shareholder returns through increased dividends, position it favorably in the retail net lease market.

## 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>\$3.95</b>	<b>\$4.81</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>\$2.92</b>	<b>\$3.55</b>
<b>Shares<sup>1</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 6.7% per year over the past five years. We expect that Agree Realty will continue to grow but at a slightly slower pace of

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

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4.0% 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 6.3%. We predict that Agree Realty will continue to grow its dividend at a rate of 4% for the foreseeable future. However, there is room for more significant increases as the dividend payout ratio is low for a REIT.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/AFFO	13.6	14.0	14.3	18.4	19.1	20.9	23.2	20.8	20.3	18.3	<b>14.3</b>	<b>18.0</b>
Avg. Yld.	5.7%	5.6%	5.4%	4.2%	3.9%	3.7%	3.3%	3.6%	3.7%	4.0%	<b>5.2%</b>	<b>4.2%</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 14.3x times AFFO, this implies a modest valuation tailwind. Due to the higher average 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 5.2%, implying moderate overvaluation compared to the past.

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

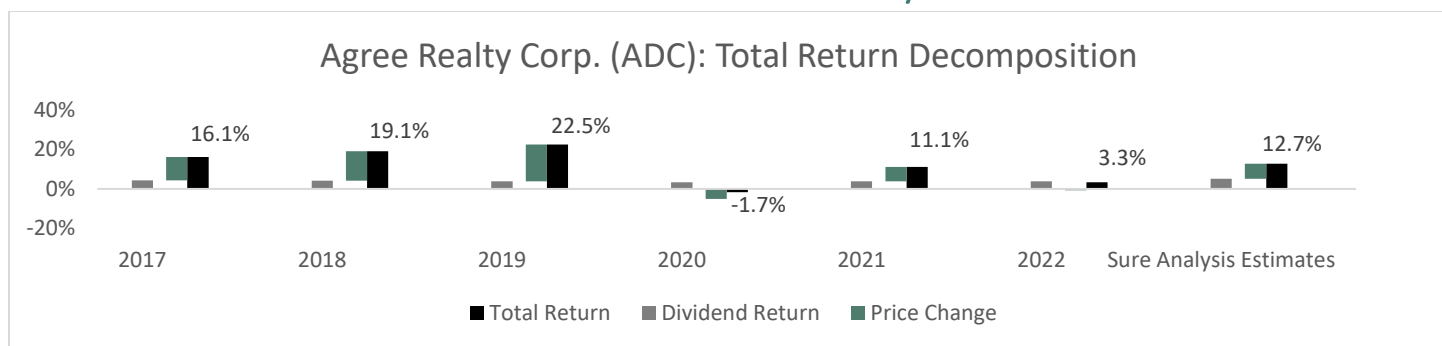
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	78.1%	79.8%	77.4%	75.6%	74.6%	75.4%	74.0%	74.3%	72.6%	72.4%	<b>74%</b>	<b>74%</b>

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 undervalued at today's price, in our view. We estimate a 5-year annual return of 12.7% going forward, stemming from 4.0% growth, a 5.2% dividend yield, and a valuation tailwind. Thus, shares earn a buy 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
Revenue	44	54	70	92	112	137	187	249	339	430
Gross Profit	40	49	64	83	99	120	164	217	298	378
Gross Margin	91.6%	90.8%	90.9%	90.6%	88.8%	87.6%	87.5%	87.2%	87.9%	87.8%
SG&A Exp.	6	7	7	8	9	12	16	21	25	30
D&A Exp.	9	11	16	23	32	44	59	83	120	167
Operating Profit	25	31	40	52	63	75	103	129	177	214
Operating Margin	58.4%	57.7%	57.3%	56.4%	56.5%	54.9%	54.8%	52.0%	52.2%	49.8%
Net Profit	20	18	39	45	58	58	80	91	122	152
Net Margin	45.2%	34.5%	55.8%	49.3%	52.1%	42.4%	42.7%	36.8%	36.0%	35.5%
Free Cash Flow	29	35	45	62	82	93	127	143	246	362
Income Tax	---	---	---	0	0	1	1	1	2	3

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	463	594	790	1,142	1,495	2,028	2,665	3,886	5,227	6,713
Cash & Equivalents	15	5	3	33	51	54	16	6	43	28
Accounts Receivable	3	5	7	12	15	22	27	38	53	66
Goodwill & Int. Ass.	28	47	77	140	195	280	344	474	672	799
Total Liabilities	171	238	336	456	583	790	973	1,360	1,808	2,083
Accounts Payable	3	3	3	6	11	21	49	71	70	84
Long-Term Debt	158	222	317	401	520	720	872	1,218	1,688	1,940
Shareholder's Equity	290	354	451	683	909	1,236	1,689	2,524	3,243	4,454
LTD/E Ratio	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
Return on Assets	4.7%	3.5%	5.6%	4.7%	4.4%	3.3%	3.4%	2.8%	2.7%	2.6%
Return on Equity	8.1%	5.7%	9.7%	8.0%	7.3%	5.4%	5.5%	4.3%	4.2%	4.0%
ROIC	4.9%	3.6%	5.8%	4.9%	4.6%	3.4%	3.5%	2.9%	2.8%	2.6%
Shares Out.	13.0	15.0	18.0	23.0	28.0	32.0	41.0	52.0	67.0	79.2
Revenue/Share	3.31	3.58	3.87	3.99	4.03	4.23	4.55	4.74	5.05	5.43
FCF/Share	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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