# Four Corners Property Trust, Inc. (FCPT)

*Updated November 11th, 2023 by Felix Martinez*

## Key Metrics

| | | | | | | |
|---|---|---|---|---|---|---|
| **Current Price:** | $22 | **5 Year CAGR Estimate:** | 13.4% | **Market Cap:** | $1.9 B |
| **Fair Value Price:** | $28 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 12/29/23[1] |
| **% Fair Value:** | 79% | **5 Year Valuation Multiple Estimate:** | 4.7% | **Dividend Payment Date:** | 01/03/24 |
| **Dividend Yield:** | 6.2% | **5 Year Price Target** | $34 | **Years Of Dividend Growth:** | 8 |
| **Dividend Risk Score:** | F | **Retirement Suitability Score:** | D | **Rating:** | Buy |

## Overview & Current Events

Four Corners Property Trust was formed after Darden Restaurants, Inc (DRI) spin-off, announced in November 2015. Four Corners Property Trust commenced trading on November 10, 2015, on the New York Stock Exchange under the symbol FCPT. FCPT has become an independent public trust that intends to elect and qualify to be treated as a real estate investment trust (REIT) effective January 1, 2016. FCPT, headquartered in Mill Valley, CA, is a real estate investment trust primarily acquiring and leasing restaurant properties. The Trust seeks to grow its portfolio by acquiring additional real estate to lease, on a net basis, for use in the restaurant and retail industries. The Trust has a seven-year dividend growth history and a market capitalization of $1.9 billion.

On November 1st, 2023, FCPT reported third-quarter financial and operating results for Fiscal Year (FY)2023. The company received 99.9% of its expected rental income for the third quarter. Financially, the third quarter saw a 17.3% increase in rental revenue to $57.2 million, comprising $56.1 million in cash rents. Net income attributable to common shareholders was $24.2 million, or $0.27 per diluted share, compared to $24.5 million, or $0.30 per diluted share, for the same period last year. For the nine months ending September 30, 2023, net income was $70.9 million, or $0.80 per diluted share, compared to $74.9 million, or $0.92 per diluted share, in 2022.

Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) for the third quarter showed positive trends. NAREIT-defined FFO per diluted share increased to $0.41, and AFFO per diluted share rose to $0.42. General and Administrative (G&A) expense for the quarter was $5.5 million, with cash G&A expense at $4.0 million, representing 7.2% of cash rental income. The company declared a dividend of $0.34 per common share for Q3.

In terms of acquisitions and dispositions, the third quarter saw the addition of 31 properties for $130.2 million and the sale of two properties for $11.2 million. Liquidity-wise, FCPT had approximately $237 million in available funds as of September 30, 2023, with outstanding debt of $1,135 million. The company issued $100 million in senior unsecured notes, with funds arriving on July 12, 2023, and terminated interest rate swaps, resulting in a gain of $8.1 million. The net debt to adjusted EBITDAre leverage ratio stood at 5.6x at quarter-end.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FFO** | $0.92 | $0.91 | $1.51 | $1.35 | $1.36 | $1.41 | $1.44 | $1.49 | $1.56 | $1.60 | ***$1.62*** | ***$1.97*** |
| **DPS** | NA | NA | NA | $1.17 | $1.00 | $1.11 | $1.17 | $1.23 | $1.29 | $1.34 | ***$1.37*** | ***$1.59*** |
| **Shares[2]** | 42.0 | 42.0 | 6.0 | 60.0 | 61.0 | 64.0 | 69.0 | 72.0 | 77.0 | 81.0 | ***81.0*** | ***81.0*** |

The most significant growth prospects from FCPT will be the continuation of profitable acquisitions in the future. The Trust does not have a long history of FFO growth, but FCPT has grown FFO at a Compound Annual Growth Rate (CAGR) of 2.8% over the past five years. During the COVID-19 pandemic, most REITs had to cut their dividend, or FFO decreased

[1] Ex-Dividend and Dividend Payment Date are estimates
[2] Share count is in millions.
*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.*

for the year. However, FCPT increased earnings by 4% from FY2019 to FY2020. We expect FCPT to continue to grow FFO at a 4% CAGR for the next five years. We expect the Trust to make $1.97 per share in 2028.

The dividend has been growing steadily, with a five-year average growth rate of 4.3%. We think that the Trust will continue to raise its dividend at a pace of 3% for the next five years.

## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/FFO** | NA | NA | 16 | 15.2 | 18.9 | 18.5 | 18.4 | 19.9 | 18.9 | 16.2 | ***13.5*** | ***17.0*** |
| **Avg. Yld.** | NA | NA | NA | 5.7% | 3.9% | 4.3% | 4.1% | 4.1% | 4.4% | 5.2% | ***6.2%*** | ***4.7%*** |

FCPT currently trades hands with a 13.5x FFO, lower than its peers. Over the short history of FCPT, the Trust has five-year multiple averages of 18.4x FFO. However, we think a multiple of 17x FFO is fair for FCPT because it will be in line with the sector median. Thus, this will provide a 4.7% tailwind expansion over the next five years. The current dividend yield of 6.2% is attractive and higher than its five-year average.

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

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | NA | NA | NA | 87% | 74% | 79% | 81% | 83% | 83% | 84% | ***85%*** | ***81%*** |

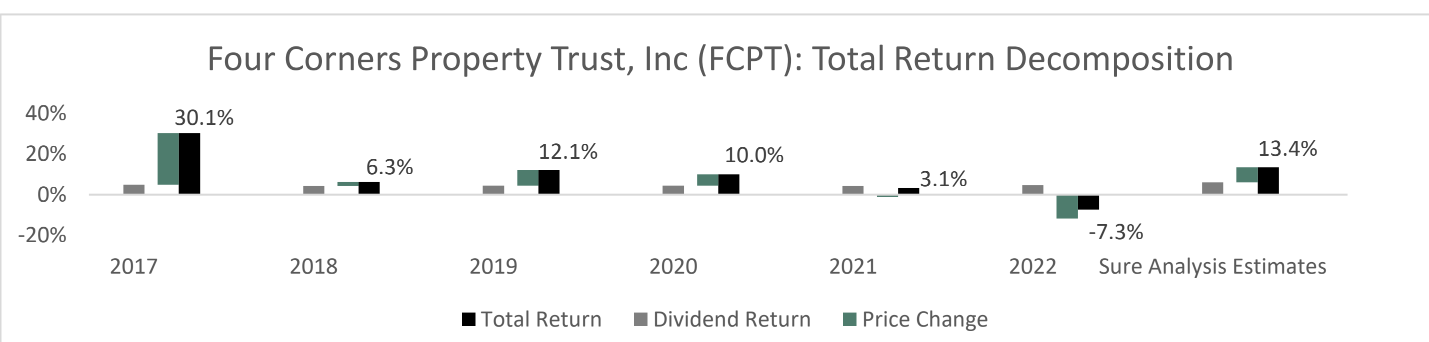
FCPT's competitive advantage is that it has a good management team. Also, the Trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80-90% range for this sector, compared to most shopping center REITs' ~65% operating margins. FCPT does not have a long history, but the Trust held steadfast during the COVID-19 pandemic. From 2019 to 2020, revenue grew 6.9%, and FFO increased 4%. This speaks volumes as most retail REITs struggle mightily during the pandemic. Also, FCPT did not have to cut its dividend.

FCPT had a good balance sheet. The Trust has an interest coverage ratio of 3.2 and a debt-to-equity ratio of 0.9. The Trust currently has $58 million cash on hand. The dividend payment is in line with other REITs paying out 85% of its FFO.

## Final Thoughts & Recommendation

FCPT is a well-run retail REIT with a good balance sheet. The Trust went through the COVID-19 pandemic like it was not even there. The Trust looks undervalued, with an expected total return for the next five years to be 9.8%. However, it does not meet our buy criteria, thus we give FCPT a buy rating at the current price because of the expected total return over the next five years of 13.4%.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 17 | 18 | 33 | 124 | 133 | 144 | 160 | 171 | 199 | 223 |
| **Gross Profit** | 1 | 1 | 16 | 106 | 114 | 124 | 139 | 151 | 170 | 187 |
| **Gross Margin** | 4.6% | 4.3% | 49.2% | 85.6% | 85.8% | 86.5% | 86.8% | 88.5% | 85.2% | 84.0% |
| **SG&A Exp.** |  | 0 | 2 | 11 | 12 | 13 | 14 | 15 | 18 | 20 |
| **D&A Exp.** | 1 | 1 | 4 | 21 | 22 | 24 | 26 | 29 | 35 | 41 |
| **Operating Profit** | 0 | 0 | 11 | 75 | 80 | 87 | 99 | 107 | 117 | 126 |
| **Operating Margin** | -0.6% | -0.6% | 32.4% | 60.2% | 60.4% | 60.6% | 61.6% | 62.5% | 58.8% | 56.4% |
| **Net Profit** | 0 | 0 | 6 | 157 | 71 | 82 | 73 | 77 | 86 | 98 |
| **Net Margin** | 0.2% | 0.2% | 17.0% | 126.4% | 53.6% | 57.4% | 45.3% | 45.2% | 42.9% | 43.8% |
| **Free Cash Flow** | 1 | 1 | 22 | 71 | 79 | 81 | 105 | 91 | 122 | 142 |
| **Income Tax** | -0.1 | -0.1 | 3 | -80 | 0.0 | 0.3 | 0.3 | 0.2 | -1 | 0 |

## Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 13 | 12 | 929 | 937 | 1069 | 1343 | 1446 | 1668 | 1903 | 2199 |
| **Cash & Equivalents** | 0 | 0 | 98 | 27 | 64 | 92 | 5 | 11 | 6 | 26 |
| **Accounts Receivable** |  |  | 0.1 | 0.2 | 0.4 | 1 | 0.4 | 1 | 1 | 3 |
| **Inventories** | 0.17 | 0.11 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 3 | 0 | 8 |
| **Goodwill & Int. Ass.** |  |  |  | 2 | 4 | 19 | 58 | 96 | 104 | 106 |
| **Total Liabilities** | 3 | 3 | 488 | 467 | 546 | 644 | 719 | 824 | 939 | 1060 |
| **Accounts Payable** | 0.4 | 0.5 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 |
| **Long-Term Debt** | 0 | 0 | 392 | 439 | 516 | 616 | 670 | 754 | 878 | 995 |
| **Shareholder's Equity** | 10 | 9 | 442 | 465 | 514 | 691 | 721 | 841 | 962 | 1136 |
| **LTD/E Ratio** | 0 | 0 | 0.89 | 0.94 | 1.00 | 0.89 | 0.93 | 0.90 | 0.91 | 0.88 |

## Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** |  | 0.3% | 1.2% | 16.8% | 7.1% | 6.8% | 5.2% | 5.0% | 4.8% | 4.8% |
| **Return on Equity** |  | 0.3% | 2.5% | 34.6% | 14.6% | 13.7% | 10.3% | 9.9% | 9.5% | 9.3% |
| **ROIC** |  | 0.3% | 1.4% | 18.0% | 7.3% | 7.0% | 5.4% | 5.2% | 5.0% | 4.9% |
| **Shares Out.** | 42.0 | 42.0 | 6.0 | 60.0 | 61.0 | 64.0 | 69.0 | 72.0 | 77.0 | 81.8 |
| **Revenue/Share** | 0.40 | 0.42 | 5.34 | 2.08 | 2.19 | 2.23 | 2.33 | 2.39 | 2.59 | 2.73 |
| **FCF/Share** | 0.02 | 0.02 | 3.46 | 1.19 | 1.30 | 1.26 | 1.53 | 1.28 | 1.59 | 1.74 |

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