Global Net Lease (GNL)

Updated November 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	$7.8	**5 Year CAGR Estimate:**	19.5%	**Market Cap:**	$1.9B
Fair Value Price:	$11.5	**5 Year Growth Estimate:**	0.8%	**Ex-Dividend Date:**	1/12/24[1]
% Fair Value:	68%	**5 Year Valuation Multiple Estimate:**	8.0%	**Dividend Payment Date:**	1/17/24[2]
Dividend Yield:	18.2%	**5 Year Price Target**	$12	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. and Europe with an emphasis on sale-leaseback transactions. The trust owns office, industrial, and retail properties. Global Net Lease is a $1.9 billion market capitalization business.

Global Net Lease, Inc. (GNL) reported its third-quarter earnings for 2023 on November 8, 2023. The quarter reflected 73 days of standalone pre-merger GNL and 19 days of post-merger internalized GNL and RTL results. The merger and internalization transaction, completed on September 12th, are on track to achieve $75 million of annualized cost savings. GNL has already exceeded projected synergies by $2 million, capturing $56 million of annualized synergies, and reduced its quarterly dividend per share from $0.40 to $0.354. GNL's portfolio includes over 1300 properties, spanning nearly 67 million square feet with a gross asset value of $9.2 billion. The portfolio is over 96% leased with a weighted-average remaining lease term of 6.9 years. Geographically, 81% of the straight-line rent is from North America, and 19% from Europe. The portfolio features an average annual rental increase of 1.3%, with 58% of tenants having an investment grade or implied investment grade credit rating.

The company's third-quarter leasing and renewal activity included 1.8 million square feet across the portfolio, with leasing spreads on renewals 5% higher than expiring rent. The largest segment, industrial and distribution, comprises 218 properties and contributes $229 million to annualized straight-line rent. The single-tenant retail segment, the largest by property count, includes 886 properties, contributing $153 million. The multi-tenant suburban retail segment features 109 properties, contributing $199 million. In Q3 2023, GNL recorded revenue of $118.2 million and a net loss attributable to common stockholders of $142.5 million. Core FFO was $31.5 million or $0.24 per share, and AFFO was $46.9 million or $0.36 per share. The financials were impacted by one-time costs related to the merger and internalization, including settlement costs, equity-based compensation, and transaction costs. The quarter ended with net debt of $5.2 billion, a weighted average interest rate of 4.7%, and liquidity of $319.4 million. The debt maturity at the end of Q3 2023 was 3.4 years, with 82% of the debt fixed rate.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFOPS	---	---	$1.96	$2.24	$2.10	$2.12	$1.85	$1.79	$1.77	$1.67	***$1.53***	***$1.59***
DPS	---	---	$1.40	$2.13	$2.13	$2.13	$2.13	$1.73	$1.60	$1.60	***$1.42***	***$1.42***
Shares[3]	---	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	103.4	***103.9***	***120.0***

Note that Global Net Lease was not publicly listed until 2015, which results in a short observation history. From first glance, Global Net Lease appears to be a strong REIT that is well diversified across a plethora of tenants and industries, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar across several countries. However, there are a variety of underlying concerns, especially as it relates to potential growth. General concerns

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[1] Estimate

[2] Estimate

[3] 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.

include potential conflicts of interest due to being externally managed by AR Global Investments (which invests for other entities), the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an "implied" credit model. While GNL should be fairly well insulated from recessions thanks to their net lease structure and their diversified pool of investment grade tenants, they did cut their dividend in 2020 as coverage was already very tight. We forecast 0.8% AFFO per share growth through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	---	---	10.5	9.8	8.4	9.3	9.5	9.6	8.9	7.9	***5.1***	***7.5***
Avg. Yld.	---	---	6.8%	9.7%	12.1%	10.8%	12.1%	10.1%	10.2%	12.1%	***18.2%***	***11.9%***

Given the current economic uncertainty across the globe and our concerns about sustainable long-term per-share growth, our fair value estimate will be on the low end of GNL's historical spectrum at 7.5 times AFFO. As a result, we view shares as undervalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	71%	95%	101%	100%	115%	97%	90%	96%	***93%***	***89%***

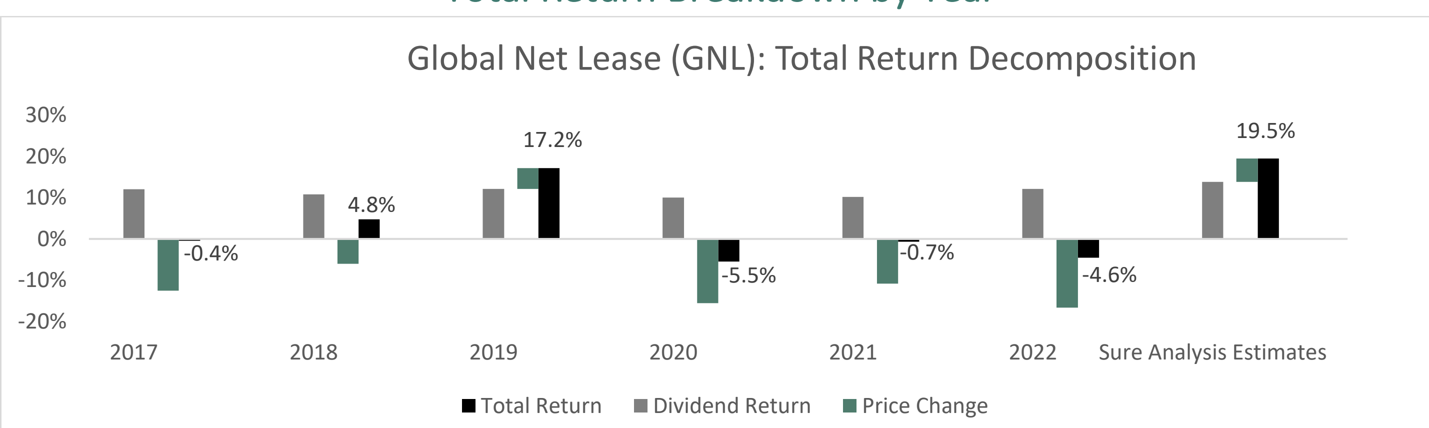
The balance sheet is reasonably liquid and flexible given the strong interest coverage ratio, low weighted-average interest rate, well laddered debt maturities, and high percentage of fixed-rate debt. Additionally, after its recent dividend cut, the payout ratio improves the current dividend's safety and improves its chances of achieving accretive growth.

As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio heading into the coronavirus outbreak unsurprisingly led to a dividend cut in 2020.

Final Thoughts & Recommendation

GNL is supported by a diversified and defensively positioned portfolio of mostly investment-grade tenants signed to long-term triple net leases. However, the external management leaves investors at considerable risk of suffering from misaligned interests and potentially underwhelming future growth. We rate shares a speculative Buy given the 19.5% annualized total return potential over the next half decade.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4	93	205	214	259	282	306	330	391	379
Gross Profit	4	85	187	195	230	253	278	298	358	346
Gross Margin	98.9%	91.5%	91.1%	91.1%	88.9%	89.8%	90.8%	90.2%	91.6%	91.3%
SG&A Exp.	0	5	43	31	29	41	53	59	67	70
D&A Exp.	2	42	92	97	118	125	131	143	168	159
Operating Profit	2	40	54	70	88	93	99	100	128	122
Operating Margin	42.7%	42.8%	26.2%	32.7%	34.0%	32.8%	32.3%	30.3%	32.7%	32.2%
Net Profit	(7)	(54)	(2)	47	24	11	46	11	11	12
Net Margin	-177%	-57.4%	-1.0%	22.0%	9.1%	3.9%	15.2%	3.3%	2.9%	3.2%
Free Cash Flow	(4)	(19)	92	114	128	143	129	170	185	152
Income Tax	-	(1)	6	4	3	2	4	5	12	11

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	215	2,429	2,541	2,891	3,039	3,309	3,702	3,967	4,183	3,962
Cash & Equivalents	12	65	70	70	102	100	270	124	90	103
Goodwill & Int. Ass.	48	488	521	601	652	698	674	735	770	574
Total Liabilities	92	1,012	1,320	1,535	1,624	1,881	1,992	2,413	2,556	2,508
Accounts Payable	3	15	19	23	23	32	23	28	26	23
Long-Term Debt	79	942	1,242	1,419	1,514	1,772	1,869	2,265	2,427	2,396
Shareholder's Equity	123	1,417	1,205	1,348	1,413	1,425	1,698	1,532	1,621	1,439
LTD/E Ratio	0.64	0.66	1.03	1.05	1.07	1.24	1.10	1.48	1.50	1.67

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		-4.1%	-0.1%	1.7%	0.8%	0.3%	1.3%	0.3%	0.3%	0.3%
Return on Equity		-7.0%	-0.2%	3.7%	1.7%	0.8%	3.0%	0.7%	0.7%	0.8%
ROIC		-4.2%	-0.1%	1.8%	0.8%	0.4%	1.4%	0.3%	0.3%	0.3%
Shares Out.	---	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	103.4
Revenue/Share	0.07	1.66	3.53	3.78	3.88	4.05	3.55	3.69	3.98	3.65
FCF/Share	(0.06)	(0.33)	1.58	2.01	1.91	2.05	1.49	1.91	1.88	1.46

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

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