



# NNN REIT, Inc. (NNN)

Updated November 13<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$37.8	<b>5 Year CAGR Estimate:</b>	10.0%	<b>Market Cap:</b>	\$7.0B
<b>Fair Value Price:</b>	\$38.5	<b>5 Year Growth Estimate:</b>	4.5%	<b>Ex-Dividend Date:</b>	1/28/24 <sup>1</sup>
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.4%	<b>Dividend Payment Date:</b>	2/15/24 <sup>1</sup>
<b>Dividend Yield:</b>	6.0%	<b>5 Year Price Target</b>	\$48	<b>Years of Dividend Growth:</b>	34
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

National Retail Properties is a REIT that owns ~3,000 single-tenant, net-leased retail properties across the United States. It is focused on retail customers because they are much more likely to accept rent hikes in order to avoid switching locations and losing their customer base. Thanks to this strategy, National Retail has offered consistent growth with markedly low volatility. It is also characterized by very high occupancy rates; its 15-year low occupancy rate is 96% and it typically ranges between 98%-99%.

On November 1, 2023, NNN REIT, Inc., a real estate investment trust, reported its financial results for the quarter and nine-month period ending September 30, 2023. The quarter witnessed a significant uptick in revenues, reaching \$205.132 million compared to \$193.471 million in the same quarter of the previous year. Funds from Operations (FFO) also showed positive growth, with \$147.223 million for the quarter and \$437.362 million over nine months, an increase from the previous year's \$139.760 million and \$406.706 million. The per-share FFO stood at \$0.81 for the quarter and \$2.41 for nine months, up from \$0.79 and \$2.31 year-over-year. Core FFO available to common stockholders was \$147.376 million for the quarter and \$438.247 million over nine months, compared to \$140.316 million and \$413.511 million in 2022. Core FFO increased to \$0.81 for the quarter and \$2.42 for nine months, from \$0.79 and \$2.35. Additionally, the Adjusted Funds from Operations (AFFO) for common stockholders was \$148.281 million for the quarter and \$442.526 million over nine months, a rise from \$142.987 million and \$423.811 million in 2022. Per share AFFO improved to \$0.82 for the quarter and \$2.44 for nine months, from \$0.81 and \$2.41 respectively in the previous year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2028
<b>FFO/S</b>	\$1.93	\$2.08	\$2.22	\$2.35	\$2.52	\$2.65	\$2.76	\$2.59	\$2.86	\$3.14	<b>\$3.21</b>	<b>\$4.00</b>
<b>DPS</b>	\$1.60	\$1.65	\$1.71	\$1.78	\$1.86	\$1.95	\$2.06	\$2.07	\$2.10	\$2.20	<b>\$2.26</b>	<b>\$2.80</b>
<b>Shares<sup>1</sup></b>	122	132.2	141	147.2	153.6	161.6	171.7	175.3	175.6	181.5	<b>182.4</b>	<b>195</b>

National Retail Properties has more than doubled its FFO since 2011, but it has also significantly increased its share count in order to fund its acquisitions of properties. As a result, the REIT has grown its FFO per share at a mid-single-digit rate per year on average since 2011. While the impact of dilution is noticeable, the dilution also has another, less obvious effect: it has greatly increased the financial burden of the dividend on the REIT.

We believe that growth will slow-moving forward as investment spreads compress, and the law of large numbers makes it increasingly challenging to move the needle with acquisitions. The trust's high level of occupancy should afford it low-single-digit levels of revenue growth, while slightly increasing margins should continue to see it growing FFO-per-share at a mid-single-digit rate despite the ever-rising share count. The bulk of National Retail's FFO-per-share growth will come from net new property acquisitions.

<sup>1</sup> 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.



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	13.2	16.4	15.4	16.7	14.8	16.1	19.2	15.4	16.5	14.4	<b>11.8</b>	<b>12.0</b>
Avg. Yld.	6.30%	4.80%	5.00%	4.40%	5.00%	4.50%	3.90%	5.20%	4.50%	4.9%	<b>6.0%</b>	<b>5.8%</b>

Using expected 2023 FFO numbers, National Retail Properties is trading at a price-to-FFO ratio of 11.8. The trust's 10-year average price-to-FFO ratio is 14, and, while recent multiples have been far higher due to low interest rates and strong results, we believe that current headwinds and rising interest rates justify a lower valuation. Therefore, we are placing 12 times FFO as our fair value estimate. Accordingly, we believe that slight multiple expansion will provide a small tailwind to the trust's total returns moving forward.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	83%	79%	77%	76%	74%	74%	75%	80%	73%	70%	<b>70%</b>	<b>70%</b>

National Retail's payout ratio is being maintained near three-quarters of FFO, and we believe it will stay there for the foreseeable future. Given this, the dividend is fairly safe at this point with the trust's rising earnings. On the other hand, National Retail Properties is significantly impacted by recessions. In the Great Recession, its funds from operations per share plunged 34%, from \$1.99 in 2008 to \$1.31 in 2010. Nevertheless, given that the financial crisis was triggered by the bubble in the housing market, the performance of the REIT in that crisis was satisfactory.

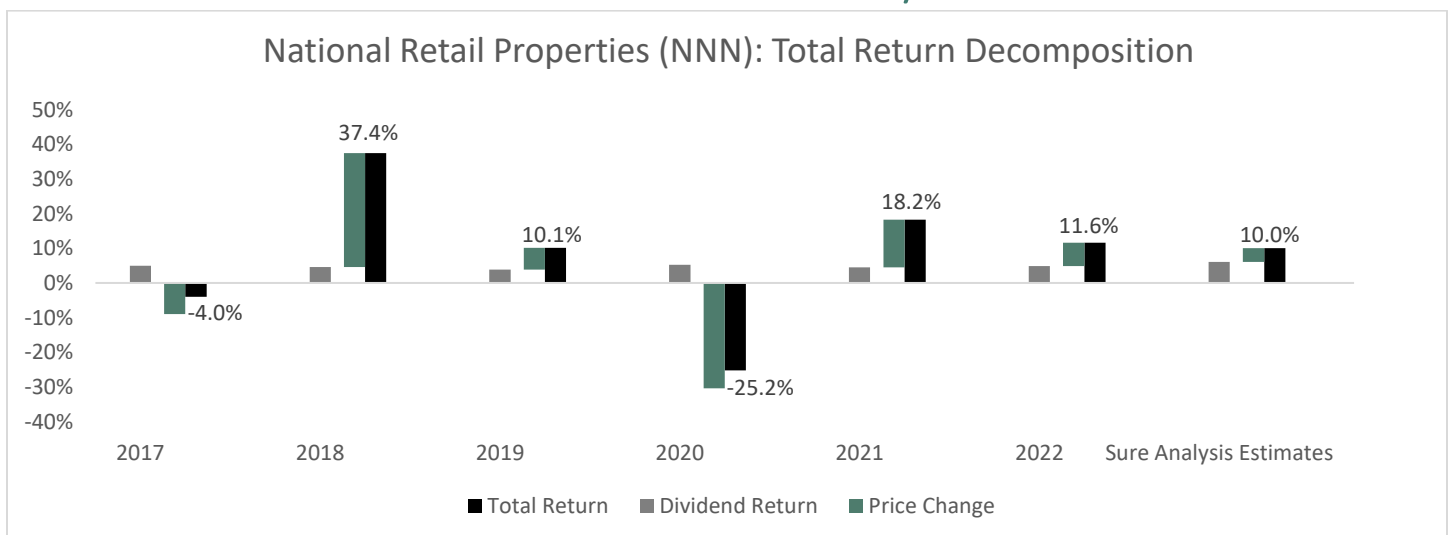
However, investors should keep in mind that its downside potential will likely be significant whenever the next recession shows up, particularly given its current valuation. The trust lacks any durable competitive advantages, though its scale and business network are gradually growing over time, which could give it increasing pricing power and economies of scale.

## Final Thoughts & Recommendation

National Retail Properties is an attractive dividend growth stock given its 6.0% dividend yield backed by a strong balance sheet, well-diversified portfolio, impressive dividend growth streak, and lengthy growth runway.

Given that it offers an estimated 10% annualized total return over the next half decade, we rate it a Buy.

## 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>	394	435	483	534	585	623	670	661	726	773
<b>Gross Profit</b>	375	416	463	513	562	598	643	632	698	747
<b>Gross Margin</b>	95.3%	95.6%	95.9%	96.1%	96.0%	96.0%	95.9%	95.7%	96.1%	96.6%
<b>SG&amp;A Exp.</b>	31	33	35	37	34	34	38	38	45	50
<b>D&amp;A Exp.</b>	100	116	135	149	174	174	189	197	205	224
<b>Operating Profit</b>	245	267	294	327	354	389	416	397	448	473
<b>Operating Margin</b>	62.2%	61.5%	60.8%	61.3%	60.6%	62.5%	62.1%	60.2%	61.7%	61.2%
<b>Net Profit</b>	160	191	198	240	265	292	299	229	290	335
<b>Net Margin</b>	40.7%	43.8%	41.0%	44.9%	45.3%	47.0%	44.6%	34.6%	39.9%	43.3%
<b>Free Cash Flow</b>	274	297	341	415	422	472	502	450	568	578
<b>Income Tax</b>	0	(0)	10							

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4,455	4,916	5,460	6,334	6,561	7,103	7,435	7,638	7,751	8,146
<b>Cash &amp; Equivalents</b>	1	11	14	295	1	114	1	267	171	3
<b>Accounts Receivable</b>	4	3	3	3	4	4	3	4	3	4
<b>Goodwill &amp; Int. Ass.</b>	70	78	72	65	51	66	76	70	67	62
<b>Total Liabilities</b>	1,676	1,832	2,118	2,417	2,720	2,949	3,103	3,319	3,849	4,023
<b>Long-Term Debt</b>	1,570	1,730	1,976	2,312	2,580	2,851	2,988	3,221	3,746	3,916
<b>Shareholder's Equity</b>	2,202	2,508	2,767	2,997	3,208	3,522	3,987	3,974	3,902	4,124
<b>LTD/E Ratio</b>	0.57	0.56	0.59	0.59	0.67	0.69	0.69	0.75	0.96	0.95

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	3.8%	4.1%	3.8%	4.1%	4.1%	4.3%	4.1%	3.0%	3.8%	4.2%
<b>Return on Equity</b>	7.6%	8.1%	7.5%	8.3%	8.5%	8.7%	8.0%	5.7%	7.4%	8.3%
<b>ROIC</b>	3.9%	4.2%	3.9%	4.1%	4.2%	4.4%	4.2%	3.1%	3.8%	4.3%
<b>Shares Out.</b>	122.0	132.2	141.0	147.2	153.6	161.6	171.7	175.3	175.6	181.5
<b>Revenue/Share</b>	3.28	3.49	3.59	3.69	3.91	3.98	4.06	3.84	4.16	4.37
<b>FCF/Share</b>	2.29	2.38	2.54	2.87	2.82	3.02	3.04	2.61	3.25	3.27

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

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