One Liberty Properties (OLP)

Updated November 7th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	13.4%	**Market Cap:**	$407 M
Fair Value Price:	$24	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	12/19/2023
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.7%	**Dividend Payment Date:**	01/05/2024
Dividend Yield:	9.5%	**5 Year Price Target:**	$26	**Years of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

One Liberty Properties is a self-administered, self-managed real estate investment trust that acquires, owns, and manages a diversified portfolio of retail, industrial, office and other properties. Almost all of One Liberty's leases are net leases, where the tenant is responsible for real estate taxes, insurance, and ordinary maintenance and repairs. One Liberty was incorporated in 1982 and became a public trust in 1983. One Liberty trades on the NYSE under the ticker symbol OLP and is headquartered in Great Neck, New York. OLP has a market capitalization of $407 million.

One Liberty's current portfolio comprises 118 properties in 31 states. The portfolio is currently at 97.5% occupancy and the trust's contractual rental income stands at $71 million. The majority of rental income is derived from One Liberty's industrial properties (55%+), and also its retail properties (25%+). The remainder of its rental income is generated by its restaurant, health & fitness, theaters, and other properties.

One Liberty Properties reported third quarter 2023 results on November 6th, 2023, for the period ending September 30th, 2023. The trust reported rental income of $22.5 million, 4.7% higher than $21.5 million in Q3 2022.

Adjusted funds from operations was $10.5 million, up slightly compared to the same prior year period. Adjusted FFO per share was up a penny to $0.49.

One Liberty sold a restaurant property in Greensboro, NC, booking a $332K gain, and acquired a 177K square foot industrial property in Blythewood, SC for $13.4 million.

At the quarter end, OLP had $5.5 million of cash and cash equivalents, total assets of $768 million and total debt of $429 million. One Liberty's liquidity was roughly $83.6 million, including $77.5 million available under its credit facility.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	$1.75	$1.84	$1.92	$1.99	$2.09	$2.13	$1.98	$1.90	$1.95	$1.98	***$2.00***	***$2.21***
DPS	$1.42	$1.50	$1.58	$1.66	$1.74	$1.80	$1.80	$1.80	$1.80	$1.80	***$1.80***	***$1.89***
Shares[2]	15.1	15.7	16.1	16.9	18.1	18.6	19.1	19.6	20.3	20.4	***21.1***	***24.0***

One Liberty Properties has grown fairly consistently over the long-term, but in recent years that growth has faltered as AFFO peaked in 2018. One Liberty has grown their AFFO on average by 1.4% and -1.1% over the last nine and five years, respectively. Its share count has also grown fairly consistently at roughly 3.4% over the last decade. Given this, we estimate that One Liberty can grow adjusted FFO from here on out at roughly 2.0% annually.

The trust is focusing on reducing its retail exposure and increasing its industrial exposure, which should pay off with the long-term trends in e-commerce and the demand for warehouses and distribution facilities increasing. Year-over-year, since 2016, OLP has reduced the percent of contractual rental income exposed to retail properties and increased the exposure to industrial properties. Additionally, a portfolio of industrial properties is likely to be valued at a higher multiple than a portfolio of retail properties, especially restaurants and theatres.

[1] Estimate

[2] In millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	12.7	11.8	11.9	11.7	11.6	12.0	14.2	10.0	14.3	13.5	***9.5***	***12.0***
Avg. Yld.	6.2%	6.7%	6.7%	7.0%	7.0%	7.0%	6.4%	10.0%	6.7%	6.6%	***9.5%***	***7.1%***

The trust's P/AFFO of 9.5 is discounted compared to its nine- and five-year historic average valuations of 12.4 and 12.8 times AFFO. With an increasing portfolio of industrial properties, the multiple is likely to expand, and we believe the trust is undervalued right here. We see fair value at 12.0 times AFFO, in between its historic valuation average. This implies the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

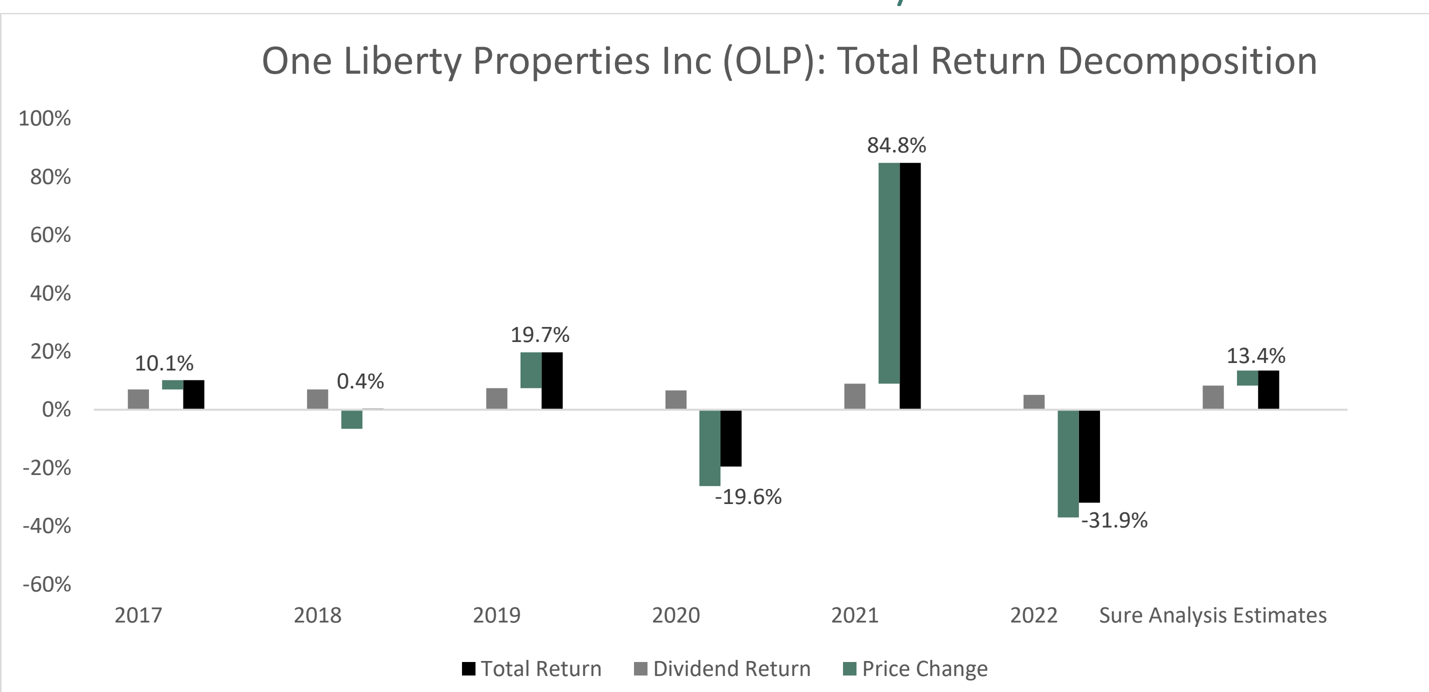
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	81%	82%	82%	83%	83%	85%	91%	95%	92%	91%	***90%***	***86%***

Despite choppy AFFO results year-over-year, One Liberty has maintained a fairly covered dividend payout, until 2019 where the coverage became somewhat under threat with a ratio higher than 90%. The payout ratio today remains about 90%, so it is something to keep an eye on, but if the trust continues executing successfully on their industrial property strategy, we see the payout ratio moderating in the future. The trust's competitive advantage lies in its dedicated management with insider ownership of more than 10%, aligning management with shareholders and, according to the CEO, "dramatically differentiates" the trust from its competitors.

Final Thoughts & Recommendation

One Liberty Properties has struggled to grow adjusted funds from operations in recent years, but it has been successfully pivoting its portfolio from retail-heavy to industrial-heavy. We estimate the trust can grow AFFO per share by roughly 2.0% annually, combined with a strong 9.5% dividend yield, and the potential for a valuation tailwind. With forecasted annualized total returns of 13.4%, we rate shares as a buy.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	51	60	66	71	76	79	85	82	83	92
Gross Profit	47	56	59	61	65	68	71	68	69	77
Gross Margin	93.1%	92.2%	90.3%	86.9%	85.5%	85.3%	83.4%	83.4%	83.3%	83.2%
SG&A Exp.	8	9	10	11	11	12	12	14	14	15
D&A Exp.	12	14	16	17	20	22	21	22	22	23
Operating Profit	27	32	33	32	32	31	36	31	32	37
Op. Margin	53.9%	52.6%	50.4%	45.7%	42.3%	39.3%	42.3%	38.2%	38.1%	40.5%
Net Profit	18	22	21	24	24	21	18	27	39	42
Net Margin	35.1%	36.6%	31.2%	34.6%	31.8%	26.1%	21.3%	33.5%	47.0%	45.7%
Free Cash Flow	27	32	34	30	44	43	36	35	49	44

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	572	590	646	733	743	781	775	776	753	783
Cash & Equivalents	17	20	13	17	14	15	11	13	16	7
Goodwill & Int.	26	27	29	33	31	27	26	25	21	20
Total Liabilities	322	335	384	442	444	482	483	484	447	466
Long-Term Debt	301	305	349	404	402	448	447	442	408	426
Total Equity	249	254	260	290	297	297	291	291	305	316
LTD/E Ratio	1.21	1.20	1.34	1.39	1.35	1.51	1.54	1.52	1.34	1.35

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.4%	3.8%	3.3%	3.5%	3.3%	2.7%	2.3%	3.5%	5.1%	5.5%
Return on Equity	7.4%	8.8%	8.0%	8.9%	8.2%	7.0%	6.1%	9.4%	13.0%	13.6%
ROIC	3.5%	4.0%	3.5%	3.7%	3.5%	2.9%	2.4%	3.7%	5.4%	5.8%
Shares Out.	15.1	15.7	16.1	16.9	18.1	18.6	19.1	19.6	20.3	20.45
Revenue/Share	3.39	3.86	4.09	4.18	4.21	4.26	4.43	4.18	4.08	4.51
FCF/Share	1.78	2.03	2.14	1.78	2.46	2.29	1.90	1.79	2.40	2.16

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