Four Corners Property Trust, Inc. (FCPT)

Updated February 21st, 2024 by Felix Martinez

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	12.2%	**Market Cap:**	$1.9 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/30/24[1]
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	04/14/24
Dividend Yield:	5.9%	**5 Year Price Target**	$35	**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 February 14th, 2024, FCPT reported fourth-quarter financial and operating results for Fiscal Year (FY)2023. The company reported strong financial results for the three and twelve months ending December 31, 2023, highlighting a successful acquisition year led by CEO Bill Lenehan. The company achieved a commendable 14% rent growth through $333 million in high-quality acquisitions. The existing portfolio demonstrates resilience with notable metrics, including high rent collections, occupancy rates, and a low leverage position at the beginning of the year. FCPT remains focused on disciplined capital allocation, actively seeking investment opportunities, and constructing an accretive pipeline to sustain its positive momentum in the real estate market.

In terms of key financial highlights, rent payments received stand at 99.8% of contractual base rent for Q4 2023 and 99.9% for the entire year. The fourth-quarter rental revenue surged by 15.0% to reach $57.6 million, with a net income of $24.4 million. Both Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) per diluted share for Q4 experienced positive increases, reaching $0.41 and $0.43, respectively. General and Administrative (G&A) expenses for Q4 were $5.5 million, including $1.5 million in stock-based compensation. Furthermore, a dividend of $0.345 per common share was declared for Q4 2023.

Regarding the real estate portfolio, as of December 31, 2023, FCPT's rental portfolio comprises 1,111 properties in 47 states, boasting a remarkable 99.8% occupancy rate. The acquisitions during Q4 included six properties with a total purchase price of $12.8 million, showcasing a solid initial weighted average cash yield of 7.4%. Simultaneously, one property was sold during the same period for a sales price of $3.8 million, generating a gain of $0.3 million. In summary, FCPT maintains a robust financial position, emphasizing disciplined capital allocation, strong rent performance, and strategic acquisitions, positioning the company for continued success in the dynamic real estate market.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	$0.91	$1.51	$1.35	$1.36	$1.41	$1.44	$1.49	$1.56	$1.60	$1.62	***$1.67***	***$2.03***
DPS	NA	NA	$1.17	$1.00	$1.11	$1.17	$1.23	$1.29	$1.34	$1.37	***$1.40***	***$1.62***
Shares[2]	42.0	6.0	60.0	61.0	64.0	69.0	72.0	77.0	81.0	88.0	***88.0***	***88.0***

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

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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 3.0% over the past five years. During the COVID-19 pandemic, most REITs had to cut their dividend, or FFO decreased 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 $2.03 per share in 2029.

The dividend has been growing steadily, with a five-year average growth rate of 3.7%. We think that the Trust will continue to raise its dividend at a pace of 3% for the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	NA	16	15.2	18.9	18.5	18.4	19.9	18.9	16.2	15.6	***14.2***	***17.0***
Avg. Yld.	NA	NA	5.7%	3.9%	4.3%	4.1%	4.1%	4.4%	5.2%	5.4%	***5.9%***	***4.7%***

FCPT currently trades hands with a 14.2x FFO, lower than its peers. Over the short history of FCPT, the Trust has five-year multiple averages of 17.8x 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 3.6% tailwind expansion over the next five years. The current dividend yield of 5.9% is attractive and higher than its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	NA	NA	86.7%	74%	79%	81%	83%	83%	84%	85%	***84%***	***80%***

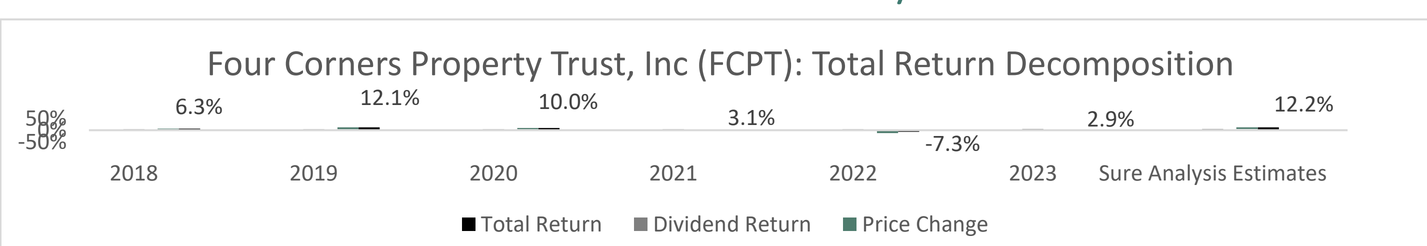
FCPT's competitive advantage is that it has a good management team. Also, the Trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80-90% range for this sector, compared to most 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 3.1 and a debt-to-equity ratio of 0.9. The Trust currently has $16 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 12.2%. Thus, it does 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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	18	33	124	133	144	160	171	199	223	251
Gross Profit	1	16	106	114	124	139	151	170	187	210
Gross Margin	4.3%	49.2%	85.6%	85.8%	86.5%	86.8%	88.5%	85.2%	84.0%	83.7%
SG&A Exp.	0	2	11	12	13	14	15	18	20	23
D&A Exp.	1	4	21	22	24	26	29	35	41	51
Operating Profit	0	11	75	80	87	99	107	117	126	137
Operating Margin	-0.6%	32.4%	60.2%	60.4%	60.6%	61.6%	62.5%	58.8%	56.4%	54.6%
Net Profit	0	6	157	71	82	73	77	86	98	95
Net Margin	0.2%	17.0%	126%	53.6%	57.4%	45.3%	45.2%	42.9%	43.8%	37.8%
Free Cash Flow	1	22	71	79	81	105	91	122	142	165
Income Tax	-0.1	3	-80	0.0	0.3	0.3	0.2	-1	0	0

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12	929	937	1069	1343	1446	1668	1903	2199	2452
Cash & Equivalents	0	98	27	64	92	5	11	6	26	16
Accounts Receivable		0.1	0.2	0.4	1	0.4	1	1	3	3
Inventories	0.11	0.2	0.2	0.2	0.2	0.2	3	0	8	0
Goodwill & Int. Ass.			2	4	19	58	96	104	106	118
Total Liabilities	3	488	467	546	644	719	824	939	1060	1192
Accounts Payable	0.5	1	1	1	1	1	0	1	1	1
Long-Term Debt	0	392	439	516	616	670	754	878	995	1113
Shareholder's Equity	9	442	465	514	691	721	841	962	1136	1258
LTD/E Ratio	0	0.89	0.94	1.00	0.89	0.93	0.90	0.91	0.88	0.88

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	1.2%	16.8%	7.1%	6.8%	5.2%	5.0%	4.8%	4.8%	4.1%
Return on Equity	0.3%	2.5%	34.6%	14.6%	13.7%	10.3%	9.9%	9.5%	9.3%	8.0%
ROIC	0.3%	1.4%	18.0%	7.3%	7.0%	5.4%	5.2%	5.0%	4.9%	4.2%
Shares Out.	42.0	6.0	60.0	61.0	64.0	69.0	72.0	77.0	81.8	88.8
Revenue/Share	0.42	5.34	2.08	2.19	2.23	2.33	2.39	2.59	2.73	2.82
FCF/Share	0.02	3.46	1.19	1.30	1.26	1.53	1.28	1.59	1.74	1.86

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