



Gladstone Land Corporation (LAND)

Updated February 24th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	10.1%	Market Cap:	\$467 M
Fair Value Price:	\$16	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/20/24
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	03/29/24
Dividend Yield:	4.3%	5 Year Price Target	\$18	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Gladstone Land Corporation is a real estate investment trust, or REIT, that specializes in the owning and operating of farmland in the U.S. The trust owns about 160 farms, comprising more than 110,000 acres of farmable land. Gladstone's business is made up of three different options available to farmers, all of which are done on a triple-net basis. The trust offers long-term sale leaseback transactions, traditional leases of farmland, and outright purchases of farm properties. Gladstone's portfolio has an appraised value of over \$1.5 billion, and the stock trades with a market capitalization of \$467 million. The trust went public in early 2013 after having been founded in 1997.

Gladstone posted fourth quarter and full-year earnings on February 20th, 2024, and results were somewhat mixed. Funds-from-operations came to 18 cents per share, which missed estimates by a penny. FFO was 19 cents a year ago, and 16 cents in the third quarter. Revenue was \$24.45 million, down 1.4% year-over-year, and \$570k better than expected.

Operating expenses came to \$15.6 million, up from \$14.1 million in Q3, and from \$15.2 million in the year-ago period, which hurt FFO. Net asset value ended the year at \$19.06, down from \$20.33 at the end of Q3.

The trust executed 30 new or amended lease agreements on farms that are expected to result in an aggregate decrease in annual net operating income of \$0.6 million over prior leases.

We start the year with an estimate of 68 cents in FFO per-share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.57	\$0.66	\$0.70	\$0.74	\$0.67	\$0.68	\$0.79
DPS	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.54	\$0.55	\$0.56	\$0.56	\$0.59
Shares¹	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	35.7	35.8	36.0	40.0

Gladstone's growth has been irregular since it went public in 2013, although that growth has settled down a bit recently. From 2016 to 2018, Gladstone produced just over \$0.50 in AFFO-per-share annually, which is below where we see long-term earnings potential after recent acquisitions. With margins and revenue growth now both sources of concern, we see growth at just 3% going forward. Acquisitions and rent escalations are likely to be the only sources of AFFO growth in the coming years, as has been the case for some time.

Growth in the trust's portfolio will drive higher rental revenues, but Gladstone continues to suffer from high funding costs. It issues preferred stock with coupons in the mid-to-high single-digits, and issues common stock that has not only an implied cost of a higher share count, but also a dividend yield of 4%+. With capitalization rates in the mid-single digits, it is very difficult for Gladstone to issue such expensive capital and then profitably invest it in new properties. Given this, Gladstone must tightly control operating expenses to move the needle on a per-share basis, which it has struggled to accomplish at times in the past. We see this as continuing for the foreseeable future unless it finds a cheaper way to fund acquisitions. We note recent lease renewals were done at unfavorable rates, at the same time as

¹ Share count 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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the acquisition landscape is quite negative. The REIT has said it is waiting out this period of higher interest rates as financing cannot be completed at favorable rates at the moment, highlighting this risk.

The dividend was raised fractionally most recently as Gladstone appears to have hit the maximum dividend it can pay until AFFO-per-share increases. The most recent increase was just 0.4%, and while the dividend increase streak is now up to nine years, the dividend is very little changed from a few years ago.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	49.3	25.8	18.9	22.0	24.8	21.2	21.6	32.3	25.8	21.6	19.1	23.0
Avg. Yld.	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	2.4%	3.0%	3.9%	4.3%	3.2%

Gladstone’s price-to-AFFO has been very high in recent years and sits at 19.1 today. We see fair value, given its projected growth and maxed out dividend, at 23 times AFFO. That implies a small positive impact from the valuation. The yield is 4.3% today and we see it declining over time as the share price should rise more quickly than the dividend payment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

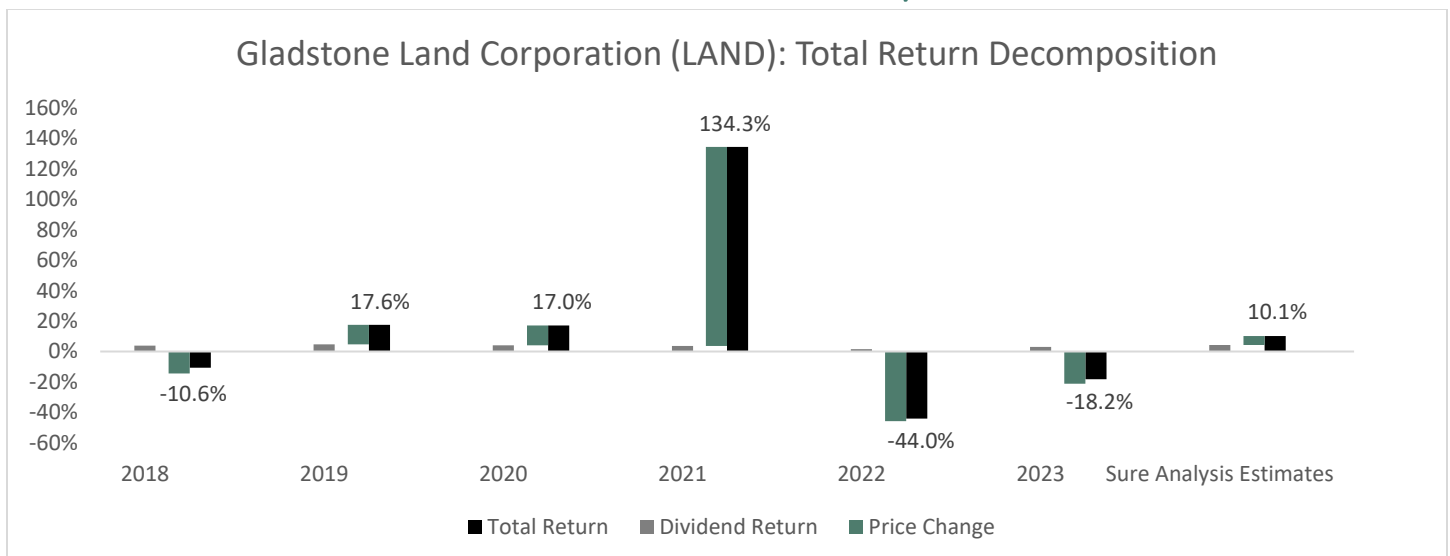
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	144%	118%	93%	93%	104%	93%	82%	77%	74%	84%	82%	75%

Gladstone offers farmers a diverse portfolio of high-quality properties, but it doesn’t necessarily have a competitive advantage. Recessions may hurt the trust’s earnings as farmers that operate on low margins may struggle if a downturn occurs. Weather is another risk factor for Gladstone and its farmers, as crop destruction can occur for a variety of reasons. The dividend should be sustainable at 82% of AFFO-per-share for this year.

Final Thoughts & Recommendation

Gladstone’s share price has performed quite poorly in recent months, which has improved its yield, valuation, and total return prospects. We forecast total annual returns of 10.1%, consisting of the dividend yield of 4.3% and growth of 3%, with a positive impact from the valuation. Given this, we’re boosting the stock from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7	12	17	25	37	41	57	75	89	90
Gross Profit	7	11	17	24	35	38	55	73	86	86
Gross Margin	94.0%	93.3%	95.5%	94.7%	94.4%	93.9%	96.8%	96.6%	96.6%	95.6%
SG&A Exp.	3	3	4	4	5	5	8	10	13	14
D&A Exp.	2	3	5	7	9	13	17	27	35	37
Operating Profit	2	5	7	11	12	19	28	32	34	33
Operating Margin	29.5%	42.3%	42.2%	45.3%	33.0%	47.4%	48.5%	42.1%	38.2%	36.7%
Net Profit	(0)	1	0	(0)	3	2	5	3	5	15
Net Margin	-1.7%	4.8%	2.6%	-0.1%	7.2%	4.3%	8.6%	4.6%	5.6%	16.7%
Free Cash Flow	1	2	(1)	1	(12)	9	8	26	24	27
Income Tax	0	---	---	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	152	229	334	462	565	817	1,067	1,352	1,457	1,387
Cash & Equivalents	3	3	2	3	15	14	9	17	61	19
Inventories	---	---	---	2	---	---	---	---	---	54
Goodwill & Int. Ass.	1	2	2	5	6	5	4	4	6	5
Total Liabilities	92	151	246	344	384	538	683	762	726	668
Accounts Payable	2	3	3	7	9	10	9	11	16	10
Long-Term Debt	86	142	207	301	336	482	624	668	627	574
Shareholder's Equity	60	78	77	110	176	277	384	587	731	720
LTD/E Ratio	1.44	1.82	2.70	2.74	1.91	1.74	1.63	1.14	0.86	0.80

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.1%	0.3%	0.2%	0.0%	0.5%	0.3%	0.5%	0.3%	0.3%	1.0%
Return on Equity	-0.2%	0.8%	0.6%	0.0%	1.8%	0.8%	1.5%	0.7%	0.7%	2.0%
ROIC	-0.1%	0.3%	0.2%	0.0%	0.6%	0.3%	0.6%	0.3%	0.4%	1.1%
Shares Out.	6.9	8.6	10.8	13.4	16.3	17.9	20.9	34.2	34.6	35.7
Revenue/Share	1.05	1.38	1.73	2.08	2.37	2.08	2.56	2.48	2.58	2.53
FCF/Share	0.13	0.17	(0.14)	0.11	(0.79)	0.46	0.38	0.86	0.68	0.76

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

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