



STAG Industrial (STAG)

Updated February 21st, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	7.6%	Market Cap:	\$7.2 B
Fair Value Price:	\$38	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/28/2024
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	3/15/2024
Dividend Yield:	3.8%	5 Year Price Target	\$49	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 563 buildings across 41 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$7.2 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 53% of the tenants are publicly rated and 31% of the tenants are rated "investment grade." The company typically does business with established tenants to reduce risk.

In mid-February, STAG Industrial reported (2/13/24) financial results for the fourth quarter of fiscal 2023. Core FFO per share grew 5.5% over the prior year's quarter, from \$0.55 to \$0.58, exceeding the analysts' consensus by \$0.01, thanks to the sustained strength of the REIT's tenants and material hikes in rent rates. Net operating income grew 10% over the prior year's quarter while the occupancy rate climbed sequentially from 97.6% to 98.2%. On the other hand, interest expense increased 17% year-on-year due to high interest rates. STAG Industrial has proved fairly resilient to the surge of interest rates to 23-year highs thanks to its decent balance sheet. Moreover, the REIT provided positive guidance for 2024, expecting core FFO per share of \$2.36-\$2.40. We expect FFO per share of \$2.39 and note that the REIT has not missed the analysts' estimates for 24 quarters in a row.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$1.33	\$1.42	\$1.43	\$1.70	\$1.80	\$1.84	\$1.89	\$2.06	\$2.21	\$2.29	\$2.39	\$3.05
DPS	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.43	\$1.44	\$1.45	\$1.46	\$1.47	\$1.48	\$1.53
Shares¹	53.2	66.6	69.8	100.2	115.1	137.8	150.5	173.7	179.4	182.0	185.0	300.0

STAG Industrial has grown its FFO per share at a 6.2% average annual rate over the last decade and at a 4.9% average annual rate over the last five years. The U.S. industrial market is more than \$1 trillion in size and STAG Industrial still has a market share that is less than 1% of its target market, which includes the top 60 markets of the country. Therefore, the REIT has ample room to continue to grow for years. As STAG Industrial has proved fairly resilient to the ongoing economic slowdown, we expect it to grow its FFO per share around its historical pace in the upcoming years. If the REIT grows its FFO per share at a 5.0% annual rate, its FFO per share will grow from \$2.39 this year to \$3.05 in 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/FFO	18.4	13.0	16.7	16.4	14.5	16.0	15.6	18.6	15.8	15.3	16.3	16.0
Avg. Yld.	5.6%	6.4%	6.4%	5.3%	5.5%	4.9%	4.9%	3.8%	4.2%	4.2%	3.8%	3.1%

¹ In millions.

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STAG Industrial is currently trading at a P/FFO ratio of 16.3, which is slightly higher than its historical average of 16.0. If the stock trades at its average valuation level in five years, it will incur a -0.4% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

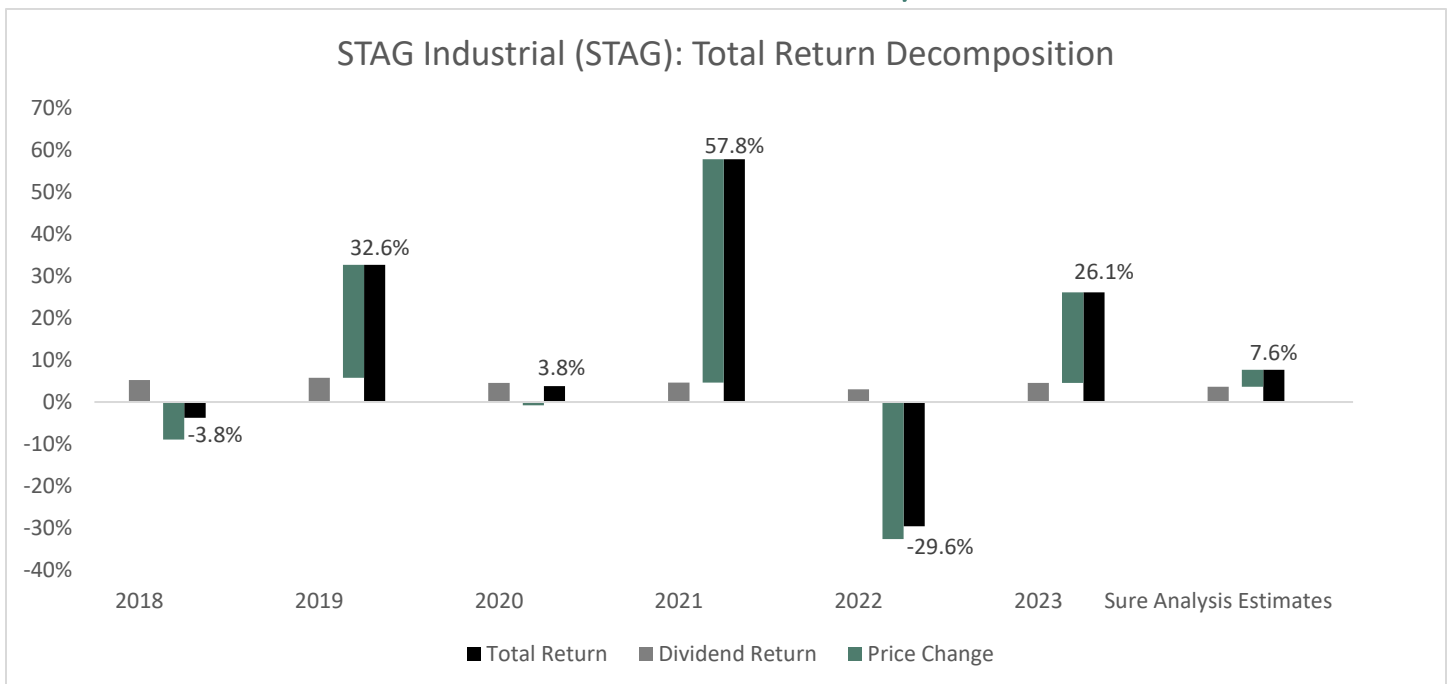
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	97.0%	95.8%	97.2%	84.4%	78.9%	77.7%	76.2%	70.4%	66.1%	64.2%	61.9%	50.2%

STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 4.9 years. Thus, the cash flows of the REIT can be considered fairly reliable under normal business conditions. STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a 3.8% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years. Nevertheless, the REIT has raised its annual dividend by less than 1% in each of the last eight years. Therefore, investors should not expect meaningful dividend growth going forward. Moreover, STAG Industrial is offering a nearly 10-year low yield due to its recent rally. Furthermore, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than quadrupled, from 42 million in 2013 to 182 million now. Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. On the bright side, the pandemic hardly affected the performance of STAG Industrial, mostly thanks to the swift recovery of the economy amid huge fiscal stimulus packages.

Final Thoughts & Recommendation

STAG Industrial has proved markedly resilient to the pandemic and the downturn from high interest rates, partly thanks to the strong profile of most of its tenants. We expect the stock to offer a 7.6% average annual return over the next five years thanks to 5.0% growth and its 3.8% dividend, partly offset by a -0.4% valuation headwind. We maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	174	219	250	301	351	406	483	562	657	708
Gross Profit	140	176	201	243	282	331	394	454	532	568
Gross Margin	80.8%	80.5%	80.5%	80.8%	80.3%	81.5%	81.5%	80.8%	81.0%	80.2%
SG&A Exp.	26	29	33	33	34	36	40	49	47	47
D&A Exp.	88	110	125	155	172	190	219	241	275	---
Operating Profit	26	37	43	59	80	109	139	167	210	242
Op. Margin	15.1%	16.8%	17.0%	19.6%	22.9%	26.9%	28.8%	29.7%	32.0%	34.2%
Net Profit	(4)	(27)	35	31	93	49	202	192	178	193
Net Margin	-2.1%	-12.5%	13.8%	10.4%	26.5%	12.1%	41.8%	34.2%	27.1%	27.3%
Free Cash Flow	10	36	46	66	87	28	179	176	335	---

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1629	1902	2186	2681	3103	4165	4,693	5,833	6,185	6,283
Cash & Equivalents	24	12	12	25	8	9	16	19	26	21
Accounts Receivable	17	21	25	34	42	58	78	94	116	128
Goodwill & Int. Ass.	248	276	295	313	342	475	500	568	509	436
Total Liabilities	738	1044	1119	1270	1433	1801	1,922	2,440	2,727	2,838
Accounts Payable	22	26	35	43	46	54	70	76	97	83
Long-Term Debt	686	980	1036	1174	1326	1645	1,703	2,218	2,499	2,624
Shareholder's Equity	725	683	882	1214	1539	2231	2,641	3,328	3,385	3,375
LTD/E Ratio	0.79	1.19	1.01	0.86	0.82	0.71	0.63	0.67	0.74	0.78

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.3%	-1.6%	1.7%	1.3%	3.2%	1.4%	4.6%	3.7%	3.0%	3.1%
Return on Equity	-0.6%	-3.9%	4.4%	3.0%	6.8%	2.6%	8.3%	6.4%	5.3%	5.6%
ROIC	-0.3%	-1.6%	1.8%	1.3%	3.3%	1.4%	4.8%	3.8%	3.1%	3.2%
Shares Out.	53.2	66.6	69.8	100.2	115.1	137.8	150.5	173.7	178.9	180.6
Revenue/Share	3.21	3.30	3.53	3.35	3.38	3.23	3.24	3.43	3.67	3.92
FCF/Share	1.79	1.84	1.92	1.80	1.91	0.22	1.23	1.07	1.87	---

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

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