



# American Assets Trust (AAT)

Updated March 1<sup>st</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$22	<b>5 Year CAGR Estimate:</b>	16.6%	<b>Market Cap:</b>	\$1.6 B
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	3/6/2024
<b>% Fair Value:</b>	57%	<b>5 Year Valuation Multiple Estimate:</b>	11.8%	<b>Dividend Payment Date:</b>	3/21/2024
<b>Dividend Yield:</b>	6.1%	<b>5 Year Price Target</b>	\$40	<b>Years Of Dividend Growth:</b>	4
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

American Assets Trust (AAT) is a real estate investment trust (REIT) that was formed in 2011 as a successor of American Assets, a privately held company founded in 1967. AAT is headquartered in San Diego, California, and has great experience in acquiring, improving and developing office, retail and residential properties throughout the U.S., primarily in Southern California, Northern California, Oregon, Washington and Hawaii. Its office portfolio and its retail portfolio comprise of approximately 4.1 million and 3.1 million square feet, respectively. AAT also owns more than 2,100 multifamily units and has a market capitalization of \$1.6 billion.

In early February, AAT reported (2/6/24) financial results for the fourth quarter of fiscal 2023. Same-store net operating income grew 2.6% and funds from operations (FFO) per share edged up 2% over the prior year's quarter, thanks to rent hikes and increased tourism in Hawaii. The REIT has decelerated in the last five quarters, as it has begun to face tough comparisons. It also provided lackluster guidance for 2024, expecting FFO per share of \$2.19-\$2.33. We note that AAT has beaten the analysts' estimates for 12 consecutive quarters, but we forecast earnings-per-share of \$2.25 for this year, very close to the mid-point of the guidance, in order to be on the safe side. We also note that the REIT appears resilient to high inflation thanks to its ability to raise rental rates every year. AAT has raised its dividend by 1.5% this year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$1.63	\$1.77	\$1.85	\$1.92	\$2.09	\$2.19	\$1.89	\$2.00	\$2.34	\$2.40	<b>\$2.25</b>	<b>\$2.36</b>
<b>DPS</b>	\$0.89	\$0.95	\$1.01	\$1.05	\$1.09	\$1.14	\$1.00	\$1.16	\$1.28	\$1.32	<b>\$1.34</b>	<b>\$1.44</b>
<b>Shares<sup>1</sup></b>	59.9	62.3	63.2	64.1	64.1	70.8	76.1	76.2	76.3	76.4	<b>76.5</b>	<b>100.0</b>

AAT pursues growth by acquiring properties in submarkets with favorable supply and demand characteristics, including high barriers to entry. It also redevelops several of its newly-acquired properties in order to enhance their value. In addition, it has a capital recycling strategy, which involves selling properties whose returns seem to have been maximized and buying high-return properties. Thanks to these growth drivers, AAT has grown its adjusted FFO per share at a 4.4% average annual rate over the last decade. Its FFO per share decreased for the first time in a decade in 2020 due to the pandemic but AAT has recovered from this crisis. We expect the REIT to grow its FFO per share at a 1.0% average annual rate over the next five years, below its historical growth rate due to somewhat high interest expense.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>P/FFO</b>	21.4	23.2	22.0	21.2	17.6	20.8	15.9	17.8	13.4	8.8	<b>9.8</b>	<b>17.1</b>
<b>Avg. Yld.</b>	2.6%	2.3%	2.5%	2.6%	3.0%	2.5%	3.3%	3.3%	4.1%	6.3%	<b>6.1%</b>	<b>3.6%</b>

AAT is trading at a depressed price-to-FFO ratio of 9.8, which is much lower than the 8-year average price-to-FFO ratio of 17.1. The somewhat rich historical valuation of AAT has resulted from its consistent growth year after year, until the onset of the pandemic. The depressed current valuation has resulted from the impact of high interest rates on interest

<sup>1</sup> In millions.

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expense. We expect AAT to revert to its average valuation level over the next five years. If AAT trades at that level in five years, it will enjoy an 11.8% annualized gain in its returns.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	55%	54%	55%	55%	52%	52%	53%	58%	55%	55%	60%	61%

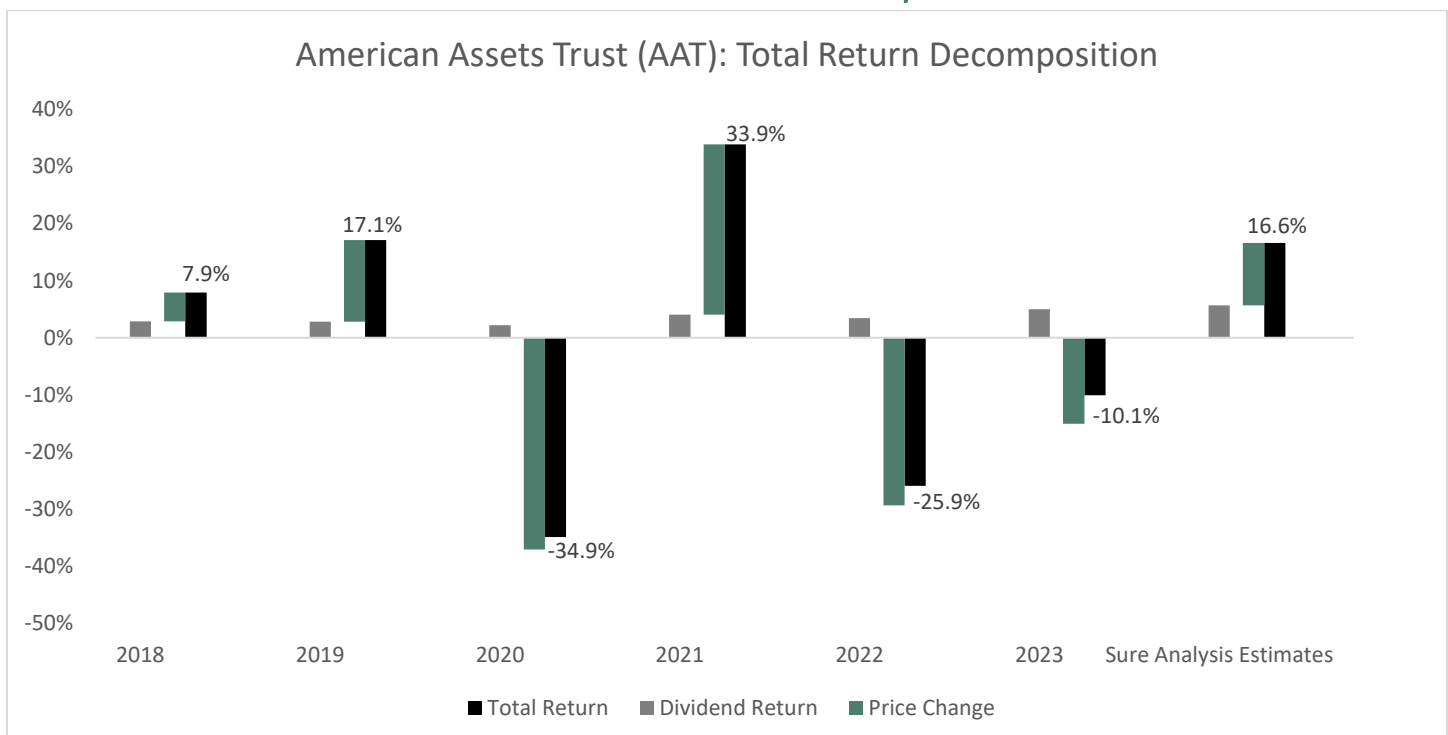
Many of the properties of AAT are located in in-fill locations, where developable land is scarce and zoning regulations significantly restrict new development. Moreover, its submarkets in Southern California, Northern California, Oregon, Washington and Hawaii are characterized by high barriers to entry, which offer the REIT a strong negotiating position with its tenants and enable it to implement material rent hikes every year.

AAT is offering a nearly 10-year high dividend yield of 6.1%. Given the healthy payout ratio of 60% and the reliable growth trajectory of the REIT, the dividend is safe. The only caveat is the material debt load of AAT, which has an interest coverage ratio of only 1.9, much less than our comfort minimum of 3.0. On the bright side, AAT has received investment grade ratings from the major rating agencies. Given the decent growth potential of AAT, we do not expect it to face any problems servicing its debt for the foreseeable future but investors should be aware of this risk factor, which renders the REIT somewhat vulnerable to recessions. AAT was not public in the Great Recession, and hence it has not been tested in a severe recession. AAT cut its dividend by -12% in 2020 due to the pandemic.

## Final Thoughts & Recommendation

AAT is highly attractive from a long-term perspective. The stock has rallied 10% since our last research report, in November, but it could still offer a 16.6% average annual return over the next five years thanks to 1.0% growth of FFO per share, a 6.1% dividend yield and an 11.8% annualized valuation tailwind. The security maintains its buy rating but we reiterate that patience may be required until interest rates revert to normal levels.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	260	276	295	315	331	367	345	376	423	441
Gross Profit	169	178	187	198	209	235	223	246	270	277
Gross Margin	64.9%	64.4%	63.4%	63.0%	63.3%	64.0%	64.8%	65.5%	63.8%	62.8%
SG&A Exp.	19	20	18	21	23	25	27	30	32	36
D&A Exp.	67	63	71	83	107	96	108	116	123	120
Operating Profit	84	94	98	94	80	114	89	100	115	122
Operating Margin	32.2%	34.2%	33.2%	29.7%	24.0%	31.0%	25.7%	26.6%	27.2%	27.7%
Net Profit	31	54	46	40	27	60	36	37	56	65
Net Margin	12.0%	19.6%	15.5%	12.7%	8.2%	16.4%	10.3%	9.7%	13.2%	14.7%
Free Cash Flow	(39)	(24)	61	98	82	65	63	64	65	106

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,942	1,974	1,987	2,260	2,198	2,790	2,817	3,018	2,988	2,985
Cash & Equivalents	59	40	45	83	48	99	137	140	50	83
Accounts Receivable	7	8	9	10	9	12	7	7	8	8
Goodwill & Int. Ass.	24	18	12	10	10	34	29	32	64	20
Total Liabilities	1,175	1,145	1,148	1,416	1,396	1,497	1,564	1,808	1,802	1,831
Accounts Payable	51	32	32	38	47	63	59	65	66	61
Long-Term Debt	1,063	1,056	1,062	1,325	1,291	1,358	1,407	1,649	1,648	1,690
Shareholder's Equity	735	800	810	834	803	1,314	1,271	1,239	1,221	1,198
D/E Ratio	1.45	1.32	1.31	1.59	1.61	1.03	1.11	1.33	1.35	1.41

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.7%	2.8%	2.3%	1.9%	1.2%	2.4%	1.3%	1.3%	1.9%	2.2%
Return on Equity	4.5%	7.0%	5.7%	4.9%	3.3%	5.7%	2.8%	2.9%	4.5%	5.5%
ROIC	1.7%	2.9%	2.4%	2.0%	1.3%	2.5%	1.3%	1.3%	2.0%	2.3%
Shares Out.	59.9	62.3	63.2	64.1	64.1	70.8	76.1	76.2	76.23	76.34
Revenue/Share	4.34	4.42	4.67	4.91	5.16	5.18	4.53	4.93	5.54	5.78
FCF/Share	(0.65)	(0.38)	0.97	1.53	1.28	0.93	0.83	0.84	0.86	1.39

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

## Disclaimer

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