



Global Net Lease (GNL)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$7.6	5 Year CAGR Estimate:	16.9%	Market Cap:	\$1.7B
Fair Value Price:	\$9.8	5 Year Growth Estimate:	1.3%	Ex-Dividend Date:	4/11/24 ¹
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	4/16/24 ²
Dividend Yield:	18.7%	5 Year Price Target	\$10	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. and Europe with an emphasis on sale-leaseback transactions. The trust owns office, industrial, and retail properties. Global Net Lease is a \$1.7 billion market capitalization business.

Global Net Lease, Inc. (GNL) reported its fourth-quarter earnings for 2023 on February 27, 2024. In the fourth quarter of 2023, Global Net Lease (GNL) experienced significant milestones and operational achievements. Following the merger with The Necessity Retail REIT, Inc. and the internalization of advisory and property management functions, GNL realized \$68 million of annualized synergies, with plans to achieve the full \$75 million balance by the third quarter of 2024.

Despite challenges, the company reported robust financial metrics, including revenue of \$206.7 million and net loss of \$59.5 million, or \$0.26 per diluted share. Notably, net operating income (NOI) reached \$169.7 million, while Core Funds from Operations (FFO) amounted to \$48.3 million, or \$0.21 per diluted share, and Adjusted Funds from Operations (AFFO) totaled \$71.7 million, or \$0.313 per diluted share. The quarter saw significant leasing activity, with 70 lease renewals and new leases spanning over 2.1 million square feet, generating over \$19 million of net new straight-line rent. GNL's portfolio maintained strong occupancy at 96% leased, with a weighted average remaining lease term of 6.8 years. The company achieved a renewal leasing spread of 6% across the entire portfolio, underscoring its robust performance. Additionally, GNL's strategic focus for the near term includes reducing leverage through selective dispositions, prioritizing non-core assets, and pursuing opportunistic sales, with plans to close a \$148 million disposition pipeline by the second quarter of 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFOPS	---	\$1.96	\$2.24	\$2.10	\$2.12	\$1.85	\$1.79	\$1.77	\$1.67	\$1.40	\$1.31	\$1.40
DPS	---	\$1.40	\$2.13	\$2.13	\$2.13	\$2.13	\$1.73	\$1.60	\$1.60	\$1.55	\$1.42	\$1.10
Shares³	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	103.4	229.8	229.8	250

Note that Global Net Lease was not publicly listed until 2015, which results in a relatively short observation history. From first glance, Global Net Lease appears to be a strong REIT that is well diversified across a plethora of tenants and industries, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar across several countries. However, there are a variety of underlying concerns, especially as it relates to potential growth. General concerns include the poor management track record, the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an "implied" credit model. While GNL should be fairly well insulated from recessions thanks to their net lease structure and their diversified pool of investment grade tenants, they did cut their dividend in 2020 as coverage was already very tight. We forecast 1.3% AFFO per share growth through 2029.

¹ Estimate

² Estimate

³ In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	---	10.5	9.8	8.4	9.3	9.5	9.6	8.9	7.9	5.1	5.8	7.5
Avg. Yld.	---	6.8%	9.7%	12.1%	10.8%	12.1%	10.1%	10.2%	12.1%	18.2%	18.7%	10.5%

Given the current economic uncertainty across the globe and our concerns about sustainable long-term per-share growth, our fair value estimate will be on the low end of GNL's historical spectrum at 7.5 times AFFO. As a result, we view shares as undervalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	71%	95%	101%	100%	115%	97%	90%	96%	111%	108%	79%

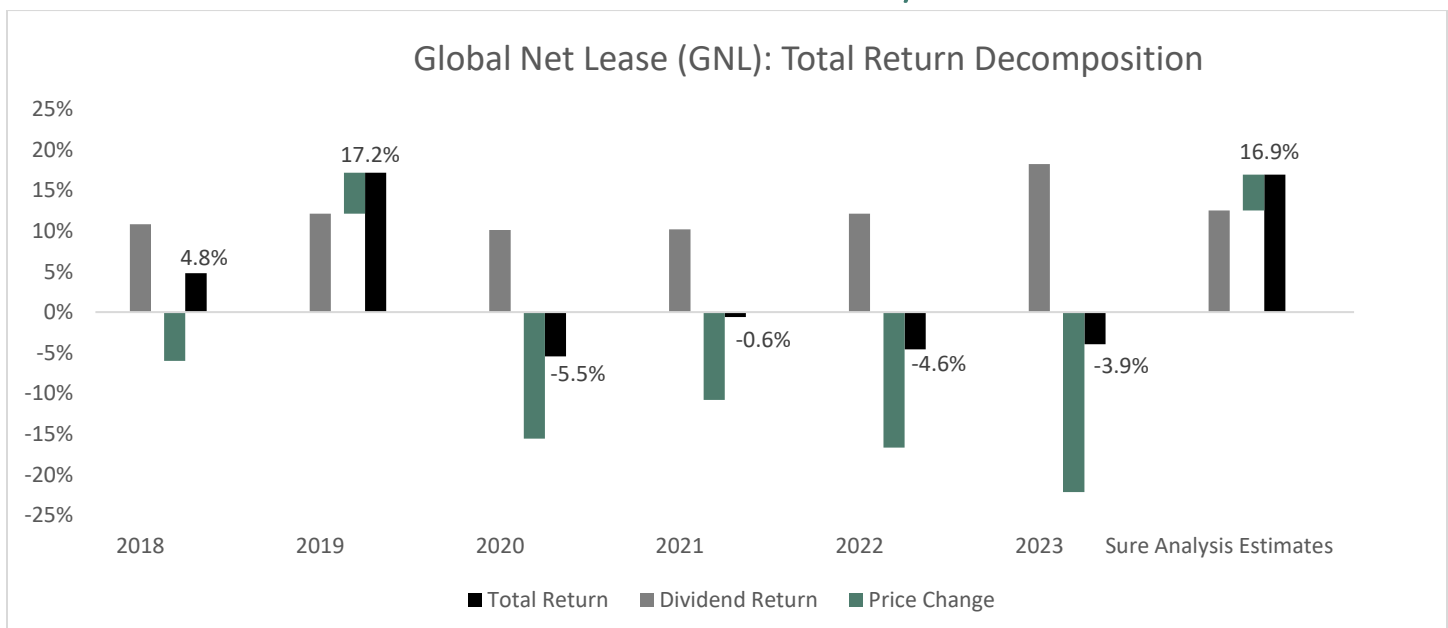
The balance sheet is reasonably liquid and flexible given the strong interest coverage ratio, low weighted-average interest rate, well-laddered debt maturities, and high percentage of fixed-rate debt. Additionally, after its recent dividend cut, the payout ratio improves the current dividend's safety and improves its chances of achieving accretive growth.

As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession-resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio heading into the coronavirus outbreak unsurprisingly led to a dividend cut in 2020.

Final Thoughts & Recommendation

GNL is supported by a diversified and defensively positioned portfolio of mostly investment-grade tenants signed to long-term triple-net leases. However, the poor management track record leaves investors at considerable risk of suffering from value destruction and potentially underwhelming future growth. We rate shares a speculative Buy given the 16.9% annualized total return potential over the next half-decade.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	93	205	214	259	282	306	330	391	379	515
Gross Profit	85	187	195	230	253	278	298	358	346	447
Gross Margin	91.5%	91.1%	91.1%	88.9%	89.8%	90.8%	90.2%	91.6%	91.3%	86.8%
SG&A Exp.	5	43	31	29	41	53	59	67	70	86
D&A Exp.	42	92	97	118	125	131	143	168	159	234
Operating Profit	40	54	70	88	93	99	100	128	122	139
Operating Margin	42.8%	26.2%	32.7%	34.0%	32.8%	32.3%	30.3%	32.7%	32.2%	27.0%
Net Profit	(54)	(2)	47	24	11	46	11	11	12	(212)
Net Margin	-57.4%	-1.0%	22.0%	9.1%	3.9%	15.2%	3.3%	2.9%	3.2%	-41.1%
Free Cash Flow	(19)	92	114	128	143	129	170	185	152	96
Income Tax	(1)	6	4	3	2	4	5	12	11	14

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,429	2,541	2,891	3,039	3,309	3,702	3,967	4,183	3,962	8,099
Cash & Equivalents	65	70	70	102	100	270	124	90	103	122
Goodwill & Int. Ass.	488	521	601	652	698	674	735	641	321	938
Total Liabilities	1,012	1,320	1,535	1,624	1,881	1,992	2,413	2,556	2,508	5,460
Accounts Payable	15	19	23	23	32	23	28	26	23	99
Long-Term Debt	942	1,242	1,419	1,514	1,772	1,869	2,265	2,427	2,396	5,148
Shareholder's Equity	1,417	1,205	1,348	1,413	1,425	1,698	1,532	1,621	1,439	2,638
LTD/E Ratio	0.66	1.03	1.05	1.07	1.24	1.10	1.48	1.50	1.67	1.95

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-4.1%	-0.1%	1.7%	0.8%	0.3%	1.3%	0.3%	0.3%	0.3%	-3.5%
Return on Equity	-7.0%	-0.2%	3.7%	1.7%	0.8%	3.0%	0.7%	0.7%	0.8%	-10.4%
ROIC	-4.2%	-0.1%	1.8%	0.8%	0.4%	1.4%	0.3%	0.3%	0.3%	-3.6%
Shares Out.	---	56.2	66.2	67.3	83.8	89.4	90.5	103.6	103.4	229.8
Revenue/Share	1.66	3.53	3.78	3.88	4.05	3.55	3.69	3.98	3.65	3.61
FCF/Share	(0.33)	1.58	2.01	1.91	2.05	1.49	1.91	1.88	1.46	0.68

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

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