One Liberty Properties (OLP)

Updated March 9th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$459 M
Fair Value Price:	$24	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	03/26/2024
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	04/04/2024
Dividend Yield:	8.1%	**5 Year Price Target:**	$26	**Years of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

One Liberty Properties is a self-administered, self-managed real estate investment trust that acquires, owns, and manages a diversified portfolio of retail, industrial, office and other properties. Almost all of One Liberty's leases are net leases, where the tenant is responsible for real estate taxes, insurance, and ordinary maintenance and repairs. One Liberty was incorporated in 1982 and became a public trust in 1983. One Liberty trades on the NYSE under the ticker symbol OLP and is headquartered in Great Neck, New York. OLP has a market capitalization of $459 million.

One Liberty's current portfolio comprises 108 properties in 31 states. The portfolio is currently at 98.8% occupancy and the trust's contractual rental income stands at $71.3 million. The majority of rental income is derived from One Liberty's industrial properties (66%+), and also its retail properties (21%+). The remainder of its rental income is generated by its restaurant, health & fitness, theaters, and other properties.

One Liberty Properties reported fourth quarter 2023 results on March 5th, 2024, for the period ending December 31st, 2023. The trust reported rental income of $22.7 million, 18% lower than $27.7 million in Q4 2022.

Adjusted funds from operations was $10.6 million, down slightly compared to the prior year period. Adjusted FFO per share was down two cents to $0.50.

In 2023, One Liberty sold seven restaurant properties and three retail properties, and acquired a multi-tenant industrial property in Blythewood, SC.

At year-end, OLP had $26.4 million of cash and cash equivalents, total assets of $762 million and total debt of $418 million. One Liberty's liquidity was roughly $123.9 million, including $100 million available under its credit facility, on March 1st, 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	$1.84	$1.92	$1.99	$2.09	$2.13	$1.98	$1.90	$1.95	$1.98	$1.99	***$1.96***	***$2.16***
DPS	$1.50	$1.58	$1.66	$1.74	$1.80	$1.80	$1.80	$1.80	$1.80	$1.80	***$1.80***	***$1.89***
Shares[2]	15.7	16.1	16.9	18.1	18.6	19.1	19.6	20.3	20.4	20.4	***20.8***	***24.0***

One Liberty Properties has grown fairly consistently over the long-term, but in recent years that growth has faltered as AFFO per share peaked in 2018. One Liberty has increased its AFFO per share on average by 0.9% and -1.4% over the last nine and five years, respectively. Its share count has also grown fairly consistently at roughly 3.0% over the last decade. Given this, we estimate that One Liberty can grow adjusted FFO from here on out at roughly 2.0% annually.

The trust is focusing on reducing its retail exposure and increasing its industrial exposure, which should pay off with the long-term trends in e-commerce and the demand for warehouses and distribution facilities increasing. Year-over-year, since 2016, OLP has reduced the percent of contractual rental income exposed to retail properties and increased the

[1] Estimate
[2] In millions

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exposure to industrial properties. Additionally, a portfolio of industrial properties is likely to be valued at a higher multiple than a portfolio of retail properties, especially restaurants and theatres.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	11.8	11.9	11.7	11.6	12.0	14.2	10.0	14.3	13.5	10.5	***11.4***	***12.0***
Avg. Yld.	6.7%	6.7%	7.0%	7.0%	7.0%	6.4%	10.0%	6.7%	6.9%	8.6%	***8.1%***	***7.3%***

The trust's P/AFFO of 11.4 is discounted compared to its ten- and five-year historic average valuations of 12.1 and 12.5 times AFFO. With an increasing portfolio of industrial properties, the multiple is likely to expand, and we believe the trust is undervalued right here. We see fair value at 12.0 times AFFO, in line with its historic valuation average. This implies the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

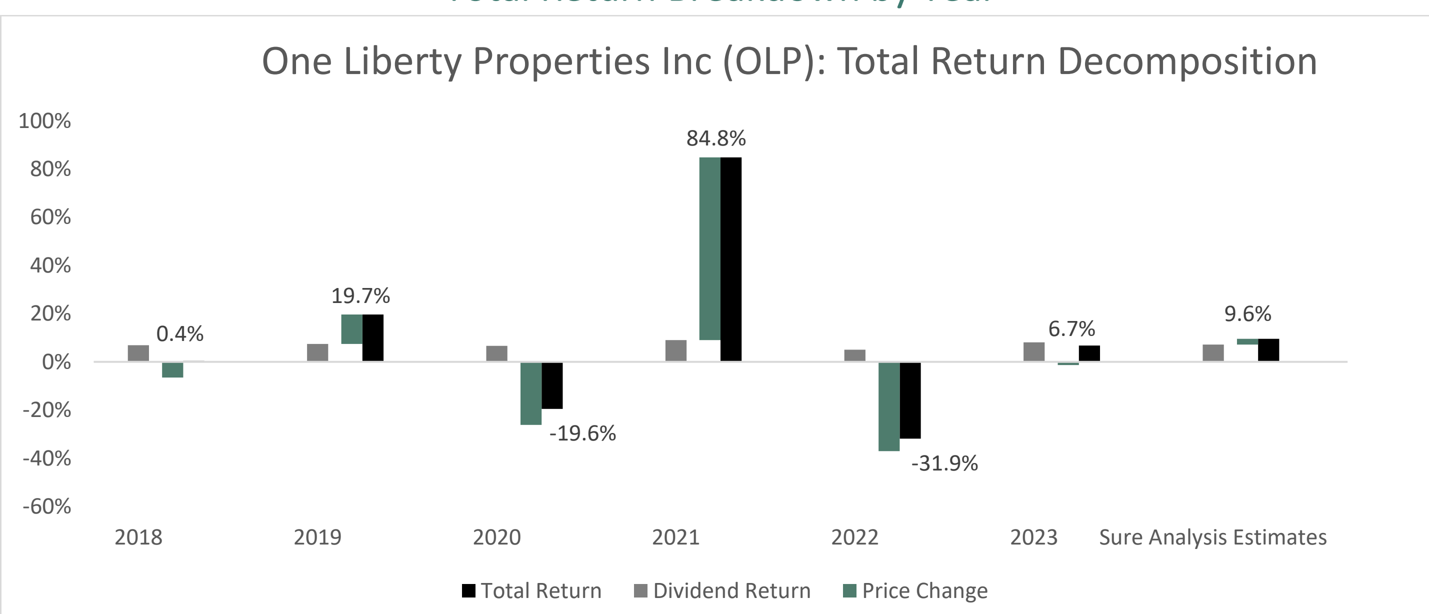
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	82%	82%	83%	83%	85%	91%	95%	92%	91%	90%	***92%***	***87%***

Despite choppy AFFO results year-over-year, One Liberty had maintained a fairly covered dividend payout, until 2019 where the coverage became somewhat under threat with a ratio higher than 90%. The payout ratio today remains about 92%, so it is something to keep an eye on, but if the trust continues executing successfully on its industrial property strategy, we see the payout ratio moderating in the future. The trust's competitive advantage lies in its dedicated management with insider ownership of more than 10%, aligning management with shareholders and, according to the CEO, "dramatically differentiates" the trust from its competitors.

Final Thoughts & Recommendation

One Liberty Properties has struggled to grow adjusted funds from operations in recent years, but it has been successfully pivoting its portfolio from retail-heavy to industrial-heavy. We estimate the trust can grow AFFO per share by roughly 2.0% annually, combined with a high 8.1% dividend yield, and a 1.1% valuation tailwind. With forecasted annualized total returns of 9.6%, we rate OLP as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	60	66	71	76	79	85	82	83	92	91
Gross Profit	56	59	61	65	68	71	68	69	77	74
Gross Margin	92.2%	90.3%	86.9%	85.5%	85.3%	83.4%	83.4%	83.3%	83.2%	81.3%
SG&A Exp.	9	10	11	11	12	12	14	14	15	16
D&A Exp.	14	16	17	20	22	21	22	22	23	24
Operating Profit	32	33	32	32	31	36	31	32	37	33
Op. Margin	52.6%	50.4%	45.7%	42.3%	39.3%	42.3%	38.2%	38.1%	40.5%	36.3%
Net Profit	22	21	24	24	21	18	27	39	42	30
Net Margin	36.6%	31.2%	34.6%	31.8%	26.1%	21.3%	33.5%	47.0%	45.7%	33.0%
Free Cash Flow	32	34	30	44	43	36	35	49	44	46

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	590	646	733	743	781	775	776	753	783	762
Cash & Equivalents	20	13	17	14	15	11	13	16	7	26
Goodwill & Int.	27	29	33	31	27	26	25	21	20	15
Total Liabilities	335	384	442	444	482	483	484	447	466	454
Long-Term Debt	305	349	404	402	448	447	442	408	426	418
Total Equity	254	260	290	297	297	291	291	305	316	307
LTD/E Ratio	1.20	1.34	1.39	1.35	1.51	1.54	1.52	1.34	1.35	1.36

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	3.3%	3.5%	3.3%	2.7%	2.3%	3.5%	5.1%	5.5%	3.8%
Return on Equity	8.8%	8.0%	8.9%	8.2%	7.0%	6.1%	9.4%	13.0%	13.6%	9.5%
ROIC	4.0%	3.5%	3.7%	3.5%	2.9%	2.4%	3.7%	5.4%	5.8%	4.0%
Shares Out.	15.7	16.1	16.9	18.1	18.6	19.1	19.6	20.3	20.45	20.56
Revenue/Share	3.86	4.09	4.18	4.21	4.26	4.43	4.18	4.08	4.51	4.41
FCF/Share	2.03	2.14	1.78	2.46	2.29	1.90	1.79	2.40	2.16	2.24

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

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