



SL Green Realty Corp. (SLG)

Updated April 18th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	9.6%	Market Cap:	\$3.3 B
Fair Value Price:	\$69	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date¹:	4/25/2024
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.1%	Dividend Payment Date:	5/13/2024
Dividend Yield:	6.1%	5 Year Price Target	\$62	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

SL Green Realty Corp. (SLG) was formed in 1980. It is an integrated real estate investment trust (REIT) that is focused on acquiring, managing, and maximizing the value of Manhattan commercial properties. It is Manhattan's largest office landlord, with a market capitalization of \$3.3 billion, and currently owns 57 buildings totaling 32 million square feet.

On June 26th, 2023, SLG sold its 50% stake in 245 Park Avenue for \$1.0 billion. Since then, the stock has more than doubled, as the sale signaled that the assets of the REIT are probably worth more than the market values them.

In mid-April, SLG reported (4/17/2024) financial results for the first quarter of fiscal 2024. Its same-store net operating income dipped -1.2% over the prior year's quarter and its occupancy rate slipped sequentially from 90.0% to 89.2%. However, due to a huge gain (\$2.02 per share) from debt extinguishment, funds from operations (FFO) per share essentially doubled over the prior year's quarter, from \$1.53 to \$3.07, beating the analysts' consensus by \$0.89.

SLG has been severely hit by the pandemic, which has led many tenants to adopt a work-from-home model. Occupancy of office space in New York remains near historic lows. This has caused an unprecedented tenant-friendly environment. On the bright side, thanks to early extinguishment of debt, SLG raised its guidance for FFO per share in 2024 from \$5.90-\$6.20 to \$7.35-\$7.65. Accordingly, we have raised our forecast from \$6.00 to \$7.50.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$5.85	\$6.38	\$8.29	\$6.45	\$6.62	\$6.99	\$7.11	\$6.80	\$6.76	\$4.94	\$7.50	\$6.78
DPS	\$2.10	\$2.52	\$2.94	\$3.14	\$3.29	\$3.44	\$3.54	\$3.64	\$3.69	\$3.23	\$3.00	\$3.00
Shares²	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9	68.7	69.3	70.5	70.0

SLG benefits from long-term growth in rental rates in one of the most popular commercial areas in the world, Manhattan. The REIT pursues growth by acquiring attractive properties and raising rental rates in its existing properties. It also signs multi-year contracts (7-15 years) with its tenants in order to secure reliable cash flows. SLG has seen its funds from operations per share decrease at a -1.9% average annual rate over the last decade due to the ongoing downturn in the office REIT industry. Due to the impact of the pandemic on its business, funds from operations have decreased in each of the last three years. The pandemic has subsided but the REIT has not begun to recover from the work-from-home trend yet. Due to a high comparison base formed by the non-recurring gain from debt extinguishment this year, we expect FFO per share to decrease at a -2.0% average annual rate over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	18.2	17.8	12.5	16.1	14.6	12.2	8.3	10.6	8.4	6.6	6.5	9.2
Avg. Yld.	2.0%	2.2%	2.8%	3.0%	3.4%	4.0%	5.1%	5.0%	6.5%	9.9%	6.1%	4.8%

¹ Estimated date.

² In millions.

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SLG has traded at an average price-to-FFO ratio of 12.5 during the last decade. Due to the impact of the work-from-home trend on its business and the impact of 16-year high interest rates on its interest expense and its valuation, the REIT is currently trading at a low FFO multiple of 6.5. In order to be conservative, we assume a fair price-to-FFO ratio of 9.2, which is equal to the 5-year average of the stock. If SLG reaches our fair valuation level in five years, it will enjoy a 7.1% annualized boost to its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	36%	39%	35%	49%	50%	49%	50%	54%	55%	65%	40%	44%

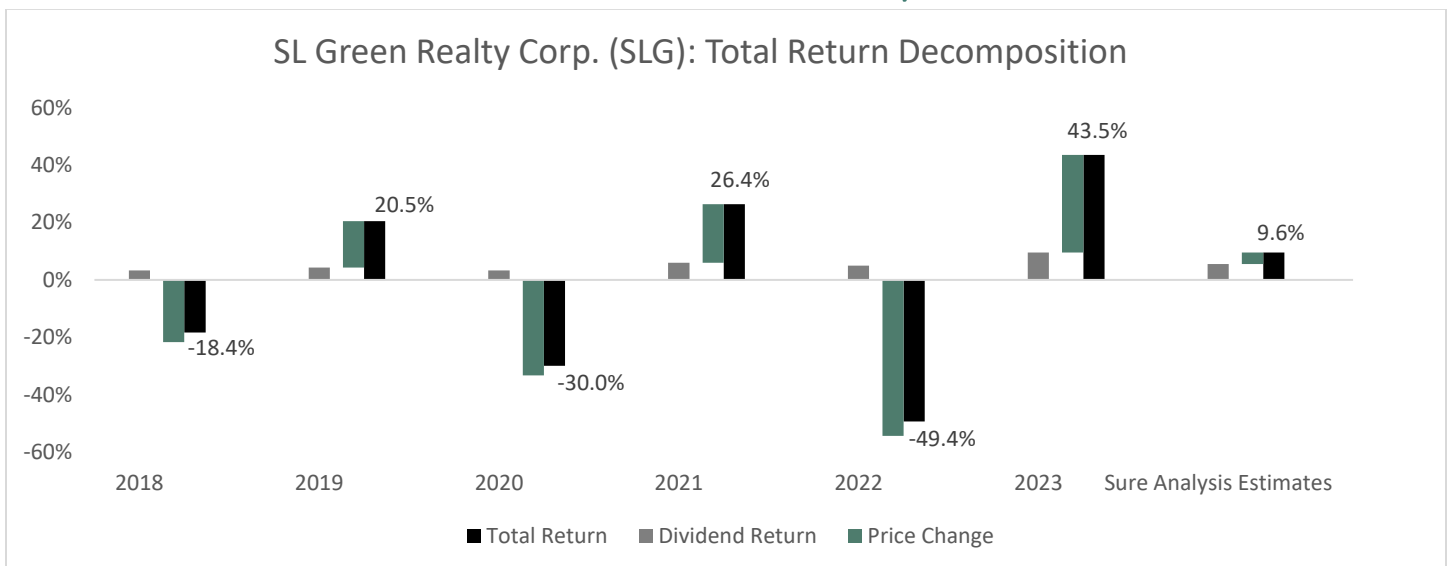
During the last 43 years, SLG has been operating, investing and developing several high-quality commercial properties in Manhattan. It has thus developed great expertise in the area, which constitutes a significant competitive advantage.

SLG is under pressure due to the work-from-home trend, which has resulted from the pandemic. However, it has a decent balance sheet, with a healthy BBB credit rating. As a result, it can endure the ongoing crisis and emerge stronger whenever the work-from-home trend subsides. It can also maintain its attractive 6.1% dividend, which is well covered by cash flows, with a healthy payout ratio of 40%. SLG is thus suitable for income-oriented investors who can wait patiently for the recovery of the REIT from the pandemic. On the other hand, we note that SLG issued a great amount of debt to buy new properties last year and thus its net debt climbed to \$5.0 billion, which is about 10 times the annual FFO and 152% the market capitalization of the stock. We will continue monitoring the debt situation closely.

Final Thoughts & Recommendation

SLG is the largest landlord in the area of Manhattan and thus it is ideal for those who want to benefit from the reliable, multi-year growth in rental rates in this area. The stock is currently facing the headwind from the work-from-home trend and rising interest expense due to 16-year high interest rates but we expect more people to return to offices and interest rates to subside in the upcoming years. Thanks to an improving outlook, the stock has more than doubled in the last 12 months, but it remains fairly attractive. Thanks to its 6.1% dividend and a 7.1% potential valuation tailwind, partly offset by a -2.0% annual decline of FFO per share, SLG could offer a 9.6% average annual return over the next five years. We marginally lower our rating from “buy” to “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	1,520	1,663	1,864	1,511	1,227	1,239	1,053	844	827	914
Gross Profit	988	1,096	1,269	941	779	780	664	497	488	436
Gross Margin	65.0%	65.9%	68.1%	62.2%	63.4%	63.0%	63.1%	58.9%	59.0%	47.7%
SG&A Exp.	92	95	100	100	93	101	92	95	94	111
D&A Exp.	400	588	846	419	290	284	325	228	223	256
Operating Profit	523	440	349	437	179	400	198	162	178	(313)
Operating Margin	34.4%	26.5%	18.7%	28.9%	14.6%	32.3%	18.8%	19.2%	21.5%	-34.2%
Net Profit	521	291	261	113	259	281	380	457	(72)	(557)
Net Margin	34.3%	17.5%	14.0%	7.5%	21.1%	22.7%	36.1%	54.2%	-8.7%	-61.0%
Free Cash Flow	490	526	644	543	442	376	554	256	276	230

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17,097	19,728	15,858	13,983	12,751	12,766	11,708	11,067	12,356	9,531
Cash & Equivalents	281	255	279	128	129	166	266	251	203	222
Accounts Receivable	432	562	496	423	378	327	347	296	292	298
Long-Term Debt	8,179	10,275	6,482	5,855	5,542	5,508	4,929	4,017	5,512	3,491
Shareholder's Equity	6,715	7,066	7,103	6,003	5,680	5,219	4,688	4,543	4,363	3,564
LTD/E Ratio	1.18	1.41	0.88	0.94	0.94	1.01	1.00	0.84	1.20	0.88

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.2%	1.6%	1.5%	0.8%	1.9%	2.2%	3.1%	4.0%	-0.6%	-5.1%
Return on Equity	8.0%	4.2%	3.7%	1.7%	4.4%	5.2%	7.7%	9.9%	-1.6%	-14.1%
ROIC	3.4%	1.7%	1.5%	0.8%	2.0%	2.4%	3.4%	4.6%	-0.7%	-6.1%
Shares Out.	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9	67.93	69.03
Revenue/Share	15.69	16.50	18.29	15.04	14.18	14.69	13.61	11.57	12.17	13.24
FCF/Share	5.06	5.22	6.32	5.40	5.10	4.46	7.16	3.51	4.06	3.38

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

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