NNN REIT, Inc. (NNN)

Updated May 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	$42.3	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$7.8B
Fair Value Price:	$39.5	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	7/30/24[1]
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	8/15/24[1]
Dividend Yield:	5.3%	**5 Year Price Target**	$48	**Years of Dividend Growth:**	34
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

National Retail Properties is a REIT that owns ~3,000 single-tenant, net-leased retail properties across the United States. It is focused on retail customers because they are much more likely to accept rent hikes to avoid switching locations and losing their customer base. Thanks to this strategy, National Retail has offered consistent growth with markedly low volatility. It is also characterized by very high occupancy rates; its 15-year low occupancy rate is 96% and it typically ranges between 98%-99%.

In the first quarter of 2024, NNN reported robust operating results with revenues reaching $215.4 million, a notable increase from $204.1 million in the prior year. Net earnings also saw growth, totaling $94.4 million compared to $90.2 million in the same period last year, translating to earnings per share of $0.52. Furthermore, FFO, Core FFO, and AFFO per share all experienced increases, rising by 3.8% and 2.4% respectively compared to the prior year. The company maintained high occupancy levels at 99.4% with a weighted average remaining lease term of 10.0 years. Additionally, NNN made significant property investments totaling $124.5 million, including the acquisition of 20 properties with a gross leasable area of approximately 284,000 square feet at an initial cash cap rate of 8.0%. Moreover, the company sold six properties for $18.5 million, generating $4.8 million in gains on sales. NNN also raised $21.5 million in net proceeds from the issuance of common shares. Steve Horn, Chief Executive Officer, highlighted NNN's strong performance and strategic balance sheet management, positioning the company to deliver long-term shareholder value as they progress through the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	$2.08	$2.22	$2.35	$2.52	$2.65	$2.76	$2.59	$2.86	$3.14	$3.26	***$3.29***	***$4.00***
DPS	$1.65	$1.71	$1.78	$1.86	$1.95	$2.06	$2.07	$2.10	$2.20	$2.23	***$2.26***	***$3.00***
Shares[1]	132.2	141	147.2	153.6	161.6	171.7	175.3	175.6	181.5	182.5	***183.3***	***195***

National Retail Properties has more than doubled its FFO since 2011, but it has also significantly increased its share count in order to fund its acquisitions of properties. As a result, the REIT has grown its FFO per share at a mid-single-digit rate per year on average since 2011. While the impact of dilution is noticeable, the dilution also has another, less obvious effect: it has greatly increased the financial burden of the dividend on the REIT.

We believe that growth will slow-moving forward as investment spreads compress, and the law of large numbers makes it increasingly challenging to move the needle with acquisitions. The trust's high level of occupancy should afford it low-single-digit levels of revenue growth, while slightly increasing margins should continue to see it growing FFO-per-share at a mid-single-digit rate despite the ever-rising share count. The bulk of National Retail's FFO-per-share growth will come from net new property acquisitions.

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[1] In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2014	2028
Avg. P/FFO	16.4	15.4	16.7	14.8	16.1	19.2	15.4	16.5	14.4	11.8	***12.9***	***12.0***
Avg. Yld.	4.8%	5.0%	4.5%	5.0%	4.6%	3.9%	5.2%	4.5%	4.9%	5.8%	***5.3%***	***6.2%***

Using expected 2024 FFO numbers, National Retail Properties is trading at a price-to-FFO ratio of 12.9. The trust's 10-year average price-to-FFO ratio is 14, and, while recent multiples have been far higher due to low interest rates and strong results, we believe that current headwinds and rising interest rates justify a lower valuation. Therefore, we are placing 12 times FFO as our fair value estimate. Accordingly, we believe that slight multiple compression will provide a small headwind to the trust's total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	79%	77%	76%	74%	74%	75%	80%	73%	70%	68%	***69%***	***75%***

National Retail's payout ratio is being maintained near three-quarters of FFO, and we believe it will stay there for the foreseeable future. Given this, the dividend is fairly safe at this point with the trust's rising earnings. On the other hand, National Retail Properties is significantly impacted by recessions. In the Great Recession, its funds from operations per share plunged 34%, from $1.99 in 2008 to $1.31 in 2010. Nevertheless, given that the financial crisis was triggered by the bubble in the housing market, the performance of the REIT in that crisis was satisfactory.

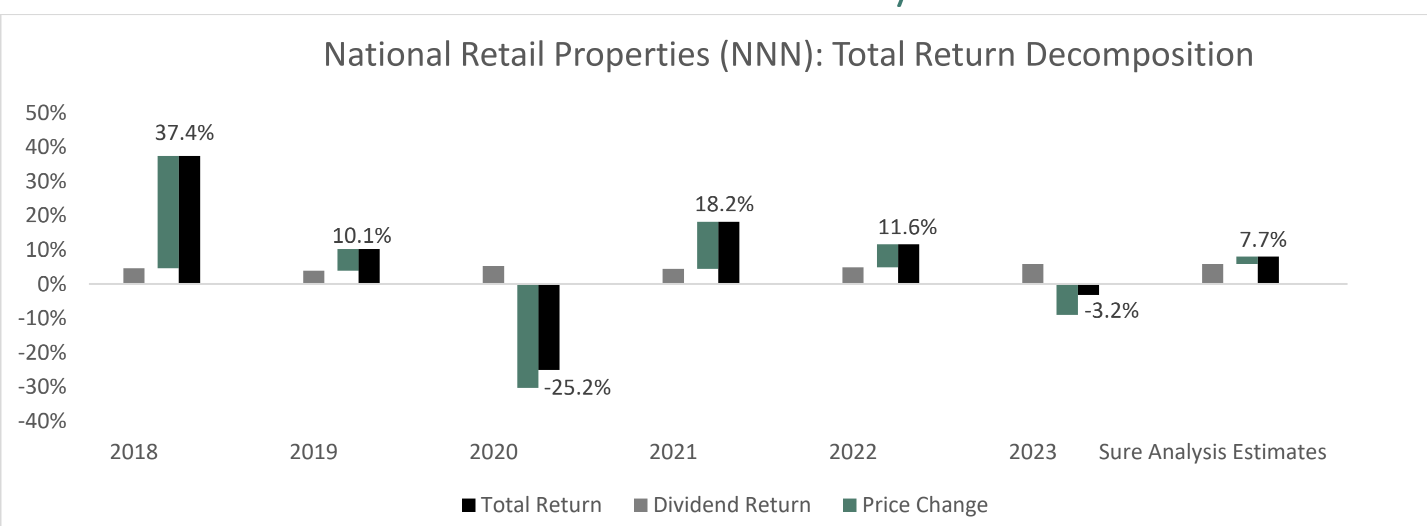
However, investors should keep in mind that its downside potential will likely be significant whenever the next recession shows up, particularly given its current valuation. The trust lacks any durable competitive advantages, though its scale and business network are gradually growing over time, which could give it increasing pricing power and economies of scale.

Final Thoughts & Recommendation

National Retail Properties is an attractive dividend growth stock given its 5.3% dividend yield backed by a strong balance sheet, well-diversified portfolio, impressive dividend growth streak, and lengthy growth runway.

Given that it offers an estimated 7.7% annualized total return over the next half decade, we rate it a Hold.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	435	483	534	585	623	670	661	726	773	828
Gross Profit	416	463	513	562	598	643	632	698	747	800
Gross Margin	95.6%	95.9%	96.1%	96.0%	96.0%	95.9%	95.7%	96.1%	96.6%	96.6%
SG&A Exp.	33	35	37	34	34	38	38	45	50	47
D&A Exp.	116	135	149	174	174	189	197	205	224	239
Operating Profit	267	294	327	354	389	416	397	448	473	514
Operating Margin	61.5%	60.8%	61.3%	60.6%	62.5%	62.1%	60.2%	61.7%	61.2%	62.0%
Net Profit	191	198	240	265	292	299	229	290	335	392
Net Margin	43.8%	41.0%	44.9%	45.3%	47.0%	44.6%	34.6%	39.9%	43.3%	47.4%
Free Cash Flow	297	341	415	422	472	502	450	568	578	612
Income Tax	(0)	10								

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,916	5,460	6,334	6,561	7,103	7,435	7,638	7,751	8,146	8,662
Cash & Equivalents	11	14	295	1	114	1	267	171	3	1
Accounts Receivable	3	3	3	4	4	3	4	3	4	4
Goodwill & Int. Ass.	78	72	65	51	66	76	70	67	62	53
Total Liabilities	1,832	2,118	2,417	2,720	2,949	3,103	3,319	3,849	4,023	4,505
Long-Term Debt	1,730	1,976	2,312	2,580	2,851	2,988	3,221	3,746	3,916	4,361
Shareholder's Equity	2,508	2,767	2,997	3,208	3,522	3,987	3,974	3,902	4,124	4,157
LTD/E Ratio	0.56	0.59	0.59	0.67	0.69	0.69	0.75	0.96	0.95	1.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	3.8%	4.1%	4.1%	4.3%	4.1%	3.0%	3.8%	4.2%	4.7%
Return on Equity	6.5%	6.2%	6.6%	6.8%	7.3%	7.1%	5.3%	7.1%	8.3%	9.5%
ROIC	4.2%	3.9%	4.1%	4.2%	4.4%	4.2%	3.1%	3.8%	4.3%	4.7%
Shares Out.	132.2	141	147.2	153.6	161.6	171.7	175.3	175.6	181.5	182.5
Revenue/Share	3.49	3.59	3.69	3.91	3.98	4.06	3.84	4.16	4.37	4.56
FCF/Share	2.38	2.54	2.87	2.82	3.02	3.04	2.61	3.25	3.27	3.37

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