BRT Apartments Corp. (BRT)

Updated June 7th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$348 M
Fair Value Price:	$19	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	6/21/2024
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	7/4/2024
Dividend Yield:	5.6%	**5 Year Price Target**	$22	**Years Of Dividend Growth:**	6
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

BRT Apartments (BRT) is a real estate investment trust (REIT) that owns and operates multi-family properties primarily in privileged Sun Belt locations. It currently owns or has interest in 29 multi-family properties with a total of approximately 8,000 units in 11 states. Most of the properties are located in the Southeast U.S. and Texas. The REIT has a market capitalization of $348 million.

Management and affiliates own 37% of the shares of BRT Apartments. As a result, the interests of management are closely aligned with those of the shareholders. In addition, the REIT benefits from the favorable demographics of the Sun Belt region, namely superior economic growth and population growth vs. the rest of the country.

In early May, BRT Apartments reported (5/8/24) financial results for the first quarter of fiscal 2024. Same-store revenue grew 2% over the prior year's quarter thanks to higher rental rates. However, adjusted funds from operations (FFO) per share slipped -3%, from $0.36 to $0.35, primarily due to the sale of a property. It is important to note that the REIT has been caught with a high debt load in the downturn caused by the surge of interest rates to 16-year highs. Its interest expense has exceeded its operating income in each of the last two years. Consequently, BRT Apartments has sold 4 properties with nearly 1,000 units in total during the last two years. We expect an approximate -3% decline in FFO per share this year, in line with the performance of the REIT in the first quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	---	$0.24	$0.47	$0.67	$1.08	$0.74	$0.99	$0.97	$1.24	$1.19	***$1.15***	***$1.33***
DPS	---	---	---	$0.36	$0.80	$0.84	$0.88	$0.90	$0.98	$1.00	***$1.00***	***$1.16***
Shares[2]	---	14.1	14.0	14.0	15.2	16.2	17.1	17.1	17.9	17.9	***18.5***	***20.0***

BRT Apartments benefits from its focus on the Sunbelt Region of the U.S., which has enjoyed higher economic growth than the rest of the country for more than a decade. The REIT has also benefited from the strong growth of demand for multi-family units thanks to the preference of millennials to rent instead of buying. The REIT tries to grow by disposing assets whose value seems to have been maximized and by forming joint venture partnerships on terms it finds attractive. On the other hand, BRT Apartments has been hurt by the surge of interest rates in the last two years due to its high debt load. As a result, it has grown its FFO per share by only 2.0% per year on average over the last five years. As we believe that the worse is behind the REIT in reference to interest rates, we have assumed that the REIT will grow its FFO per share at a 3.0% 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	---	28.9	15.3	13.2	11.2	19.5	12.7	18.8	17.7	15.8	***15.7***	***16.3***
Avg. Yld.	---	---	---	4.1%	6.6%	5.8%	7.0%	4.9%	4.5%	5.3%	***5.6%***	***5.3%***

[1] Estimated date.

[2] In millions.

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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BRT Apartments is currently trading at a P/FFO ratio of 15.7, which is lower than the 4-year average of 16.3 of the stock. We expect interest rates to moderate and the stock to revert to its average valuation level over the next five years. If this proves correct, the stock will enjoy a 0.8% 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	---	---	---	54%	74%	114%	89%	93%	79%	84%	***87%***	***87%***

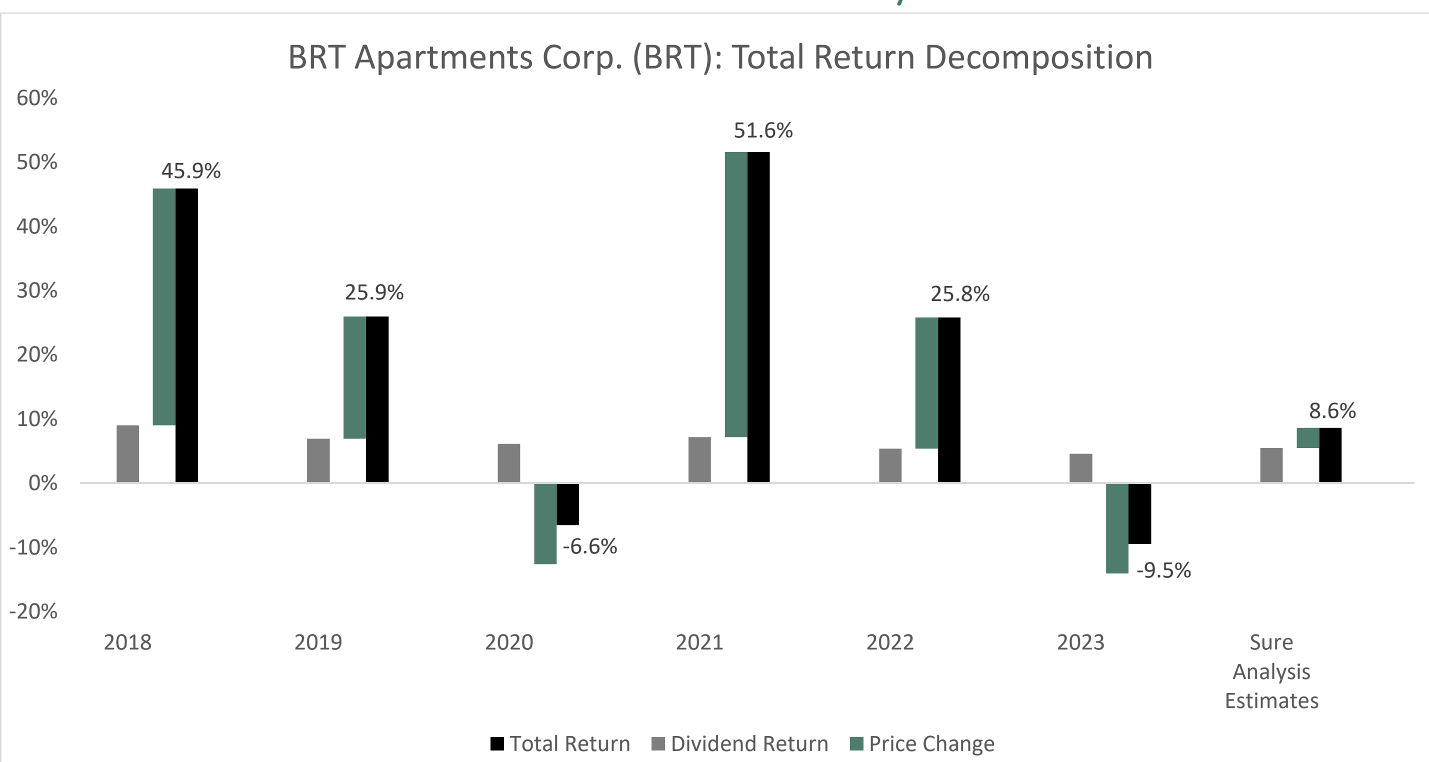
The management of BRT Apartments has four decades of experience and its interests are closely aligned with those of the shareholders. In addition, the REIT greatly benefits from the superior growth of the economy and the population in the Sun Belt region. These are significant competitive advantages.

Moreover, BRT Apartments is offering a 5.6% dividend yield, which is higher than the 4.6% median dividend yield of the REIT sector. However, the REIT has a payout ratio of 87%, which means that the dividend is not entirely safe. Interest expense has been exceeding operating income for more than two years while net debt is standing at $458 million, which is more than 20 times the annual FFO and greater than the market capitalization of the REIT. Due to its high debt load, BRT Apartments will be vulnerable to a potential downturn, such as a recession. It is thus unsuitable for conservative, income-oriented investors.

Final Thoughts & Recommendation

BRT Apartments has been caught with a high debt load in the downturn caused by the surge of interest rates to 16-year highs. As a result, the stock has declined -25% since early 2022. We believe that the worse is behind the REIT and expect a recovery in the upcoming years, as we expect interest rates to moderate. In such a case, the stock can offer an 8.6% average annual return over the next five years thanks to 3.0% annual growth of FFO per share, its 5.6% dividend and a 0.8% valuation tailwind. BRT Apartments receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	62	81	99	106	120	28	28	32	71	94
Gross Profit	29	38	51	54	62	15	16	18	40	52
Gross Margin	46.6%	47.5%	51.8%	51.5%	51.8%	55.6%	56.0%	55.7%	56.7%	55.3%
SG&A Exp.	8	9	9	9	9	10	12	13	15	15
D&A Exp.	18	23	23	30	39	6	7	8	25	28
Operating Profit	7	11	19	15	14	(1)	(3)	(3)	1	8
Op. Margin	10.9%	13.4%	18.9%	13.8%	11.9%	-2.1%	-9.7%	-8.7%	0.7%	8.4%
Net Profit	(9)	(2)	31	14	24	1	(20)	29	50	4
Net Margin	-15.3%	-2.9%	31.8%	12.9%	19.9%	3.1%	-70.7%	90.8%	70.8%	4.1%
Free Cash Flow	(48)	(51)	(37)	4	22	7	(3)	(2)	9	10

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	735	821	875	994	1,153	391	366	460	733	710
Cash & Equivalents	23	16	27	12	27	23	20	32	20	24
Total Liabilities	566	661	673	757	857	191	188	257	483	482
Long-Term Debt	520	488	625	735	829	170	168	237	460	460
Shareholder's Equity	130	123	151	166	198	200	178	203	250	228
LTD/E Ratio	3.99	3.98	4.13	4.43	4.19	0.85	0.94	1.17	1.84	2.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-1.5%	-0.3%	3.7%	1.5%	2.2%	0.1%	-5.3%	7.1%	8.4%	0.5%
Return on Equity	-5.7%	-1.5%	17.3%	6.2%	8.9%	0.3%	-10.5%	15.3%	22.1%	1.6%
ROIC	-1.6%	-0.4%	4.2%	1.5%	2.3%	0.1%	-5.6%	7.4%	8.7%	0.6%
Shares Out.	---	14.1	14.0	14.0	15.2	16.2	17.1	17.1	17.9	17.9
Revenue/Share	4.33	5.74	7.03	7.54	8.09	1.72	1.64	1.88	3.95	5.22
FCF/Share	(3.36)	(3.61)	(2.62)	0.27	1.48	0.44	(0.15)	(0.11)	0.51	0.56

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