Essential Properties Realty Trust Inc (EPRT)

Updated July 25th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$5.5 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	09/28/2024
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date[2]:**	10/13/2024
Dividend Yield:	3.8%	**5 Year Price Target:**	$37	**Years of Dividend Growth:**	5
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Essential Properties Realty Trust Inc is a real estate investment trust which acquires, owns, and manages single-tenant properties that are leased on a long-term basis to middle-market companies who operate service-oriented or experience-based businesses. Such businesses include restaurants, car washes, automotive services, medical services, convenience stores, entertainment, health & fitness, and early childhood education. The trust owns or has an interest in 2,009 properties spanning 20.1 million square footage. There are 395 diverse tenants across 16 industries in 49 states. The diversified REIT trades on the NYSE under the ticker symbol EPRT. The Trust has a market capitalization of $5.5 billion and is headquartered in Princeton, New Jersey.

On December 4th, 2023, Essential Properties announced a two cent dividend increase to $1.14 annually.

Essential Properties reported second quarter 2024 results on July 24th, 2024, for the period ending June 30th, 2024. For the quarter, funds from operations increased by 9% year-over-year to $0.47 per share. Adjusted FFO rose by 5% to $0.43 per share. At the end of the quarter, the weighted average occupancy stood at 99.8%. The properties are under a weighted average lease term of 14.1 years with a weighted average rent coverage ratio of 3.7X.

Leadership reaffirmed its 2024 guidance which calls for adjusted FFO to be between $1.72 to $1.75 for the full year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFOPS					$0.78	$1.14	$1.11	$1.34	$1.53	$1.65	***$1.74***	***$2.33***
DPS					$0.43	$0.88	$0.93	$0.98	$1.07	$1.11	***$1.14***	***$1.45***
Shares[3]					61.8	75.3	96.2	117.5	135.9	153.5	***180.0***	***220.0***

EPRT was formed in mid-2018, so its results and performance only go back so far. Considering that 2018 data only spans June 25th to December 31st, year-over-year comparisons can only truly begin with the year 2019, therefore there is little data from which to base future expectations off.

Based on the data we do possess; Essential Properties increased its adjusted funds from operations by 16% and 14% on average over the last five and three years. We estimate the trust can grow AFFO per share by at least 6% annualized going forward. Essential Properties believes it can achieve growth through further sale-leaseback transactions with middle-market companies. In 2023, 99% of its investments were sale-leasebacks transactions, and the trust has on average over the last year invested roughly $245 million per quarter into growing the business. The trust also believes its balance sheet is well positioned to fund external growth opportunities, all while maintaining its conservative leverage profile. The trust had nearly $700 million in available liquidity as of June 30th, 2024.

We see further share issuance in the future as this real estate trust appears to just be getting started, however this capital should go into growing the portfolio.

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[1] Estimate
[2] Estimate
[3] In thousands

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/AFFO					17.8	18.3	16.5	19.9	15.3	14.5	***17.5***	***16.0***
Avg. Yld.					3.1%	3.4%	5.3%	3.6%	4.3%	4.6%	***3.8%***	***3.9%***

Essential Properties has traded at a price-to-adjusted funds from operations ratio of 17.1 on average since inception in 2018. Today shares are trading at 17.5 times estimated 2024 AFFO, while we peg fair value at 16.0 times AFFO. This decrease in valuation could result in a -1.7% annualized drag on total returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout					55%	77%	84%	73%	70%	67%	***66%***	***62%***

The payout ratio has been healthy since the inception of the trust, and we expect this to continue. Essential Properties is still in its growth phase; thus its yield is lower than that of many other REITs which have greater payout ratios.

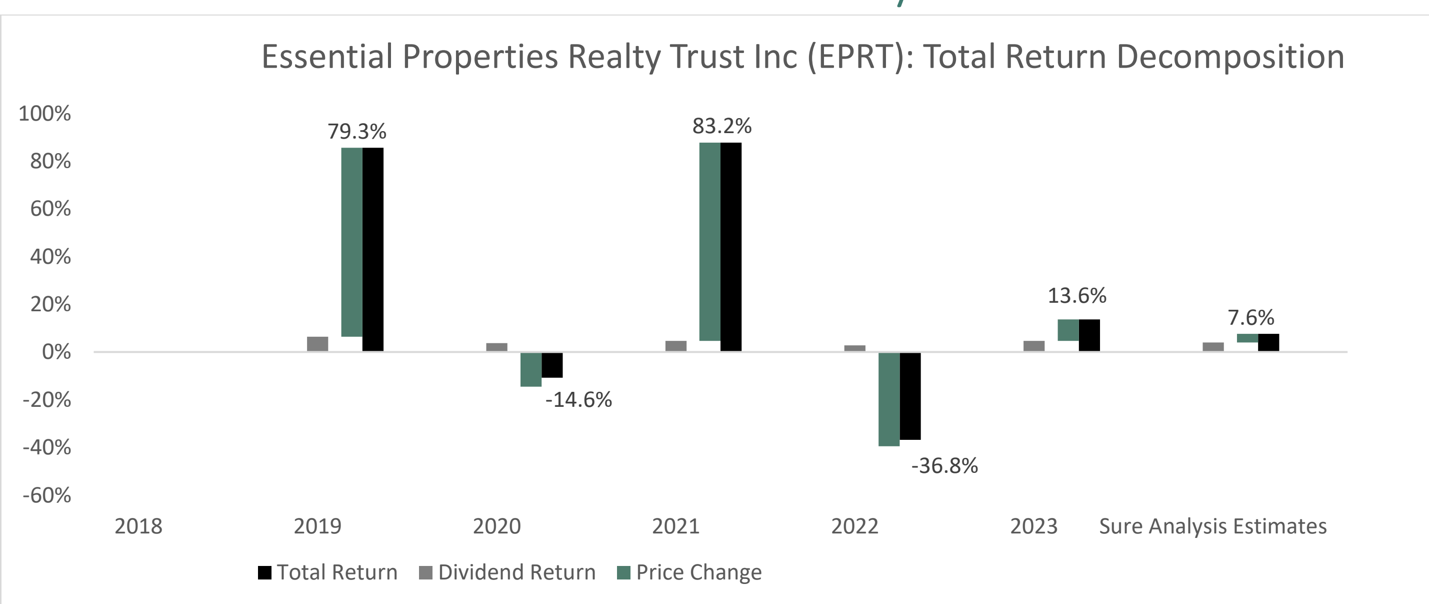
Essential Properties trust only began operating a few years ago, and thus we have no information dating back to the great financial crisis, but we would anticipate a large number of bankruptcies from so many diverse service-oriented businesses. However, the trust made it through the COVID-19 with AFFO per share practically unfazed (down 3% from 2019 to 2020), despite share count rising massively from the onset of the pandemic.

A competitive advantage of EPRT is its focus on leasing to service-oriented businesses, and in doing so, it has tenants that are well-positioned to withstand competition from e-commerce business, which in turn increases the stability and predictability of the trust's rental revenue.

Final Thoughts & Recommendation

Essential Properties Realty is a relatively new REIT and has increased its AFFO per share at a strong rate. However, as the company becomes larger, this level of growth may prove more difficult. The trust appears to be a budding dividend growth REIT as it has raised the dividend every year since inception. After running up 18% year-to-date, we believe shares are trading just above fair value now. The trust's annualized expected returns come in at 7.6% in the intermediate term, so we are downgrading EPRT 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				54	96	139	164	230	287	360
Gross Profit				53	94	136	160	224	283	355
Gross Margin				97.2%	97.9%	97.8%	97.6%	97.5%	98.8%	98.6%
SG&A Exp.				9	14	22	24	24	29	31
D&A Exp.				20	31	43	59	69	88	102
Operating Profit				25	49	72	75	131	165	222
Op. Margin				45.2%	51.1%	51.5%	46.0%	57.0%	57.6%	61.7%
Net Profit				6	16	42	42	96	134	191
Net Margin				11.6%	16.2%	30.0%	25.8%	41.6%	46.8%	53.1%
Free Cash Flow				22	46	89	99	167	211	255
Income Tax				0	0	0	0	0	1	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets			466	942	1,381	1,975	2,489	3,299	4,000	4,768
Cash & Equivalents			2	7	4	8	27	60	62	40
Accts. Recv.			1	5	14	42	63	84	102	140
Goodwill			56	62	66	79	80	88		
Total Liabilities			292	761	570	773	907	1,255	1,503	1,781
Long-Term Debt				742	540	727	815	1,166	1,421	1,669
Total Equity			175	181	562	1,194	1,575	2,037	2,488	2,979
LTD/E Ratio				4.09	0.96	0.61	0.52	0.57	0.57	0.56

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets					1.3%	2.5%	1.9%	3.3%	3.7%	4.4%
Return on Equity				3.5%	4.2%	4.8%	3.1%	5.3%	5.9%	7.0%
ROIC					1.4%	2.6%	2.0%	3.4%	3.8%	4.5%
Shares Out.					61.8	75.3	96.2	117.5	135.9	153.5
Revenue/Share				1.33	2.20	1.85	1.70	1.96	2.11	2.34
FCF/Share				0.55	1.05	1.18	1.03	1.43	1.55	1.66

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