Getty Realty Corp. (GTY)

Updated August 23rd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$31	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$1.8 B
Fair Value Price:	$33	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	9/26/2024
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	10/10/2024
Dividend Yield:	5.8%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	11
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Getty Realty (GTY) is a real estate investment trust (REIT) that specializes in the acquisition and development of convenience, automotive and other single-tenant retail real estate. The REIT has 1,124 properties in 42 states across the U.S. and a market capitalization of $1.8 billion. About 67% of the properties are convenience and gas stores.

Getty Realty has a defensive business model, as its tenants are established retailers that are resistant to recessions and the threat of e-commerce. It is remarkable that nearly 70% of the properties of the REIT are corner locations in high-density metropolitan areas. In addition, the REIT has an eye-opening occupancy rate of 99.8%.

In late July, Getty Realty reported (7/24/24) financial results for the second quarter of fiscal 2024. Rental income grew 15% over the prior year's quarter thanks to the acquisition of new properties and growth in rental rates. Adjusted funds from operations (AFFO) per share grew only 4%, from $0.56 to $0.58, due to higher interest expense and increased depreciation due to the acquisition of many new properties.

In contrast to most REITs, which are suffering from high interest expense amid 23-year high interest rates, Getty Realty has low interest expense thanks to its healthy balance sheet. Management marginally raised its guidance for AFFO per share in 2024, from $2.29-$2.31 to $2.30-$2.32. Accordingly, we have raised our forecast from $2.30 to $2.31.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	$1.26	$1.39	$1.67	$1.56	$1.80	$1.86	$2.31	$1.88	$2.44	$2.06	***$2.31***	***$2.55***
DPS	$0.82	$0.93	$1.03	$1.16	$1.31	$1.42	$1.50	$1.58	$1.66	$1.74	***$1.80***	***$2.04***
Shares[1]	33.4	33.4	33.8	36.9	40.2	41.1	42.1	44.8	46.8	50.2	***54.0***	***70.0***

Getty Realty benefits from the sustained growth of sales of convenience stores, which have proved resilient to all kinds of downturns, such as recessions, the pandemic and the boom of e-commerce. Convenience stores have grown their sales by 6% per year on average over the last 40 years, with markedly low volatility. The resilience of convenience stores renders the business model of Getty Realty strong, as the REIT has been able to increase rental rates while it has always enjoyed sector-leading occupancy rates.

Getty Realty has grown its FFO per share by 5.6% per year on average over the last decade and by 2.7% per year on average over the last five years. It invested a record $326 million in acquisitions and developments in 2023. As this amount is 18% of the market cap of the REIT, it certainly bodes well for future growth. Nevertheless, due to a somewhat volatile performance record in the last three years, we assume 2.0% average annual growth of FFO per share until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/FFO	14.4	12.2	12.8	17.1	15.1	17.2	12.1	16.3	11.9	15.6	***13.4***	***14.5***
Avg. Yld.	4.5%	5.5%	4.8%	4.4%	4.8%	4.5%	5.4%	5.2%	5.7%	5.4%	***5.8%***	***5.5%***

[1] 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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Getty Realty has traded at an average P/FFO ratio of 14.5 over the last decade, with remarkably low variation in its valuation level throughout this period. The stock is currently trading at a P/FFO ratio of 13.4, which is lower than its historical average valuation level. We expect the stock to revert to its average valuation level in five years thanks to lower interest rates. If this occurs, the stock will enjoy a 1.6% 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	65%	67%	62%	74%	73%	76%	65%	84%	68%	84%	***78%***	***80%***

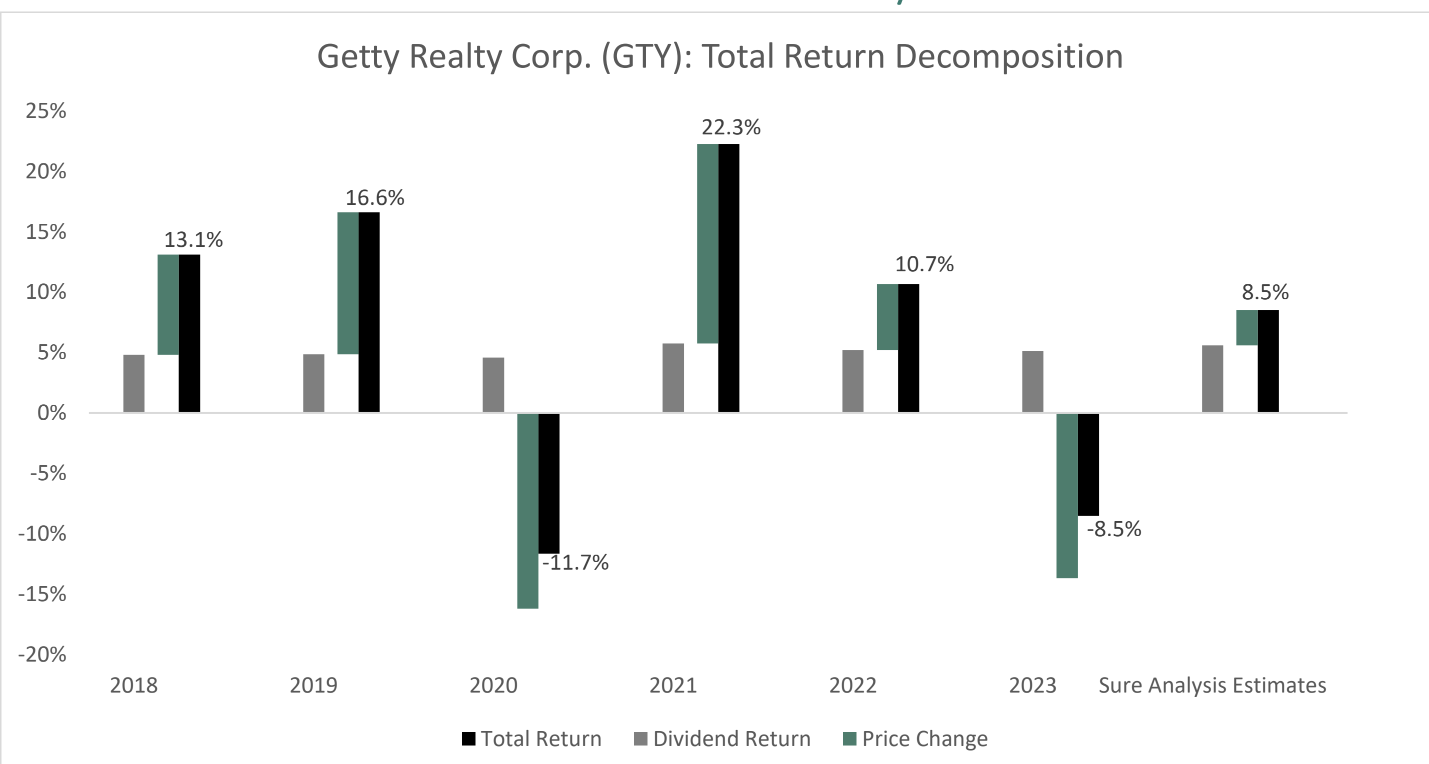
Getty Realty is offering a nearly 10-year high dividend yield of 5.8%. Its payout ratio is high, at 78%, but the REIT has a defensive business model and a manageable amount of debt. It has an interest coverage ratio of 2.8 and net debt of $820 million, which is only 46% of the market capitalization. Moreover, its only debt maturity until 2028 is $125 million in 2025. As a result, Getty Realty is not likely to have any problem servicing its debt and hence it is not likely to cut its dividend in the absence of a severe downturn.

It is also worth noting that Getty Realty proved resilient to the recession caused by the pandemic in 2020, as it kept growing its FFO per share and its dividend during that crisis.

Final Thoughts & Recommendation

Getty Realty has rallied 11% since our last research report, in May, but it remains attractive from a long-term perspective. It can offer an 8.5% average annual return over the next five years thanks to 2.0% annual growth of FFO per share, its 5.8% dividend and a 1.6% valuation tailwind. We lower our rating from “buy” to “hold” and reiterate that the stock is suitable for investors who can wait patiently for interest rates to moderate in the upcoming years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	100	111	115	120	136	141	147	155	166	186
Gross Profit	76	86	92	98	112	116	124	133	144	162
Gross Margin	76.2%	77.8%	79.9%	81.4%	82.6%	82.2%	84.0%	85.8%	87.0%	87.2%
SG&A Exp.	16	17	14	14	15	15	17	20	21	24
D&A Exp.	11	15	19	21	26	28	34	40	45	51
Operating Profit	42	45	57	65	70	70	75	74	104	92
Op. Margin	41.8%	40.6%	49.0%	53.9%	51.1%	49.6%	51.1%	47.7%	63.1%	49.4%
Net Profit	23	37	38	47	48	50	69	63	90	60
Net Margin	23.4%	33.8%	33.3%	39.3%	35.1%	35.4%	47.1%	40.4%	54.4%	32.4%
Free Cash Flow	29	49	37	59	63	77	83	87	93	105

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	688	897	877	1,073	1,162	1,212	1,350	1,467	1,562	1,822
Cash & Equivalents	3	4	13	20	47	22	55	25	9	3
Total Liabilities	280	490	446	519	581	622	690	722	802	867
Long-Term Debt	125	317	299	379	444	469	549	584	693	756
Shareholder's Equity	407	407	431	554	581	589	660	745	760	956
LTD/E Ratio	0.31	0.78	0.69	0.68	0.76	0.80	0.83	0.78	0.91	0.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.4%	4.7%	4.3%	4.8%	4.3%	4.2%	5.4%	4.5%	5.9%	3.6%
Return on Equity	5.7%	9.2%	9.2%	9.6%	8.4%	8.5%	11.1%	8.9%	12.0%	7.0%
ROIC	4.2%	6.0%	5.3%	5.7%	4.9%	4.8%	6.1%	5.0%	6.5%	3.8%
Shares Out.	33.4	33.4	33.8	36.9	40.2	41.1	42.1	44.8	46.8	50.2
Revenue/Share	2.99	3.31	3.41	3.26	3.39	3.42	3.50	3.47	3.54	3.70
FCF/Share	0.87	1.48	1.08	1.59	1.56	1.87	1.96	1.93	1.99	2.09

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