Uniti Group (UNIT)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	$4.3	**5 Year CAGR Estimate:**	24.3%	**Market Cap:**	$1.1 B
Fair Value Price:	$7.2	**5 Year Growth Estimate:**	6.3%	**Ex-Dividend Date:**	9/14/24[1]
% Fair Value:	60%	**5 Year Valuation Multiple Estimate:**	10.9%	**Dividend Payment Date:**	9/28/24[2]
Dividend Yield:	14.0%	**5 Year Price Target**	$10	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Uniti Group is a Real Estate Investment Trust (i.e., REIT) that focuses on acquiring, constructing, and leasing out communications infrastructure in the United States. In particular, it owns millions of miles of fiber strand along with other communications real estate. In its recent past it has faced challenges due to its largest tenant filing for bankruptcy and renegotiating its lease with Uniti. However, the REIT is now on firmer footing and is pursuing growth opportunities.

Uniti Group Inc. (UNIT) reported strong financial results for the second quarter of 2024, reflecting solid demand for its fiber infrastructure. The company achieved net income of $18.3 million, or $0.07 per diluted share, and Adjusted Funds from Operations (AFFO) of $0.34 per diluted share. Consolidated revenues for the quarter were $294.9 million, and Adjusted EBITDA was $236.7 million, with a margin of approximately 80%. President and CEO Kenny Gunderman highlighted the significant demand from Hyperscalers and Generative AI, driving 40% of the consolidated bookings—the highest level since 2022. The core recurring strategic fiber business grew by 3% compared to Q2 2023, while success-based capital intensity at Uniti Fiber decreased to 27% from 44% a year ago. Gunderman also mentioned the progress on the transformational merger with Windstream, which is expected to close by the second half of 2025, positioning Uniti for continued growth in both commercial and residential fiber markets. Uniti Fiber contributed $76.7 million in revenues and $31.1 million in Adjusted EBITDA, with margins around 40%. The unit's net success-based capital expenditures were $20.8 million. Uniti Leasing generated $218.3 million in revenues and $210.9 million in Adjusted EBITDA, deploying $69.6 million in capital expenditures, including $65.3 million for GCI capex. The company closed on the issuance of $300 million additional senior secured notes due February 2028, with proceeds intended for general corporate purposes, including funding part of the Windstream merger. As of the quarter-end, Uniti had $618.8 million in unrestricted cash and cash equivalents, and undrawn borrowing availability under its revolving credit agreement. The leverage ratio was 5.97x based on net debt to annualized Adjusted EBITDA.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO/S		$1.78	$2.61	$2.51	$2.51	$2.08	$1.72	$1.68	$1.75	$1.42	***$1.44***	***$1.95***
DPS		$1.64	$2.40	$2.40	$2.40	$0.00	$0.60	$0.60	$0.60	$0.60	***$0.60***	***$0.60***
Shares[3]		150.5	155.8	175.4	183.1	193.3	232.9	236.3	237.3	238.8	***244.2***	***240.0***

Since the IPO in 2015, Uniti Group has struggled to grow AFFO per share as it has been weighed down by a heavy debt burden and significant troubles with a very large tenant. Eventually it was forced to renegotiate its lease and as a result has taken a hit to cash flows. However, the REIT is on much firmer footing today and is looking to reignite growth.

It is primarily working to drive this growth through refinancing its debt at significantly lower rates in order to generate increased cash flow from existing revenue streams while also leasing up its under-utilized assets. In the near-term, however, higher interest rates are delaying this tailwind, resulting in the large decline in AFFO per share expected in

[1] Estimated
[2] Estimated
[3] 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.

2023. By adding leasing to its assets it can generate extremely high returns on investment capital as additional customers require minimal additional capital expenditures, but bring in strong cash flows. As a result, we expect Uniti Group to generate 6.3% annualized AFFO per share growth over the next half decade off of this year's lows.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/AFFO		11.00	10.5	9.7	7.4	6.3	4	6.8	8.3	3.2	***3.0***	***5.0***
Avg. Yld.		8.4%	8.8%	9.9%	12.9%	0.0%	8.7%	5.3%	4.1%	13.2%	***14.0%***	***6.2%***

Uniti Group has traded at mid to high single-digit P/AFFO multiples for most of its existence. That said, today is trades at a low single-digit P/AFFO multiple. With Uniti poised to grow AFFO per share at a steady clip moving forward while interest rates are rising, we assign a fair value P/AFFO multiple of 5x, which should provide a tailwind to total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout		92%	92%	96%	96%	0%	35%	36%	34%	42%	***42%***	***31%***

While Uniti Group's balance sheet is far from rock solid, it is on firmer footing and continuing to improve as management works to refinance debt to improve the maturity ladder as well as reduce interest costs. Furthermore, the trust is retaining a lot of cash right now thanks to the low payout ratio which it is using to deleverage and pursue growth opportunities which should in turn reduce leverage further.

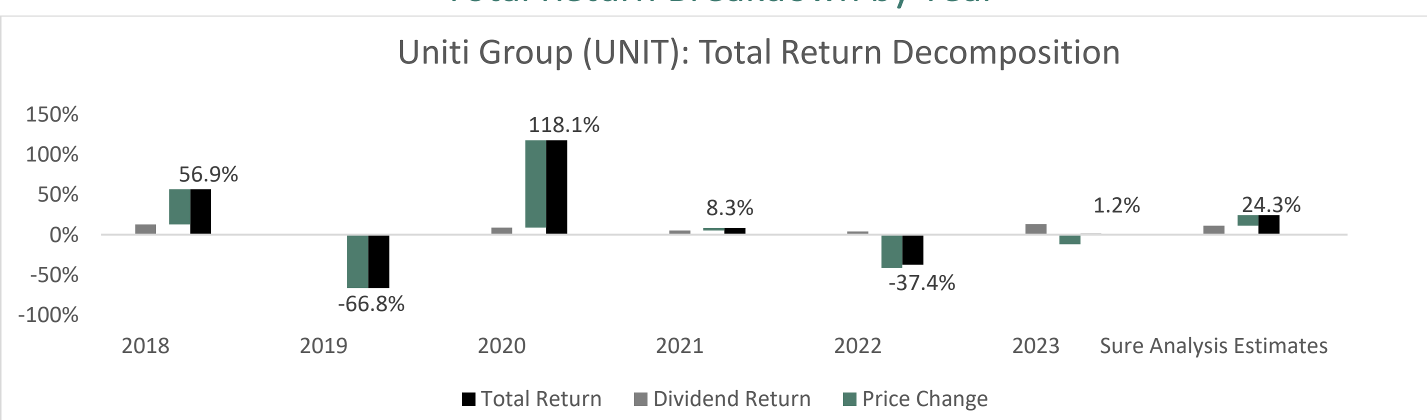
Uniti's fiber assets are critical infrastructure in the regions in which it operates and therefore the REIT should enjoy fairly stable cash flows in the face of a recession. While its assets are mission critical, there is nothing unique about Uniti Group that gives it a durable competitive advantage. As a result, it lacks meaningful pricing power and therefore is unlikely to drive abnormally high profitability over time. The main source of total returns will be a combination of its stable cash flowing business model and multiple expansion to compensation for the current deep discount in shares.

Given the low payout ratio, significant growth upside, and the mission critical and recession resistant nature of Uniti's assets, the dividend looks safe for the foreseeable future.

Final Thoughts & Recommendation

Uniti Group offers investors very attractive 24.3% annualized total return potential thanks to its sky-high dividend yield, growth potential, and deeply discounted valuation. That said, it is a fairly speculative investment due to its high leverage burden. As a result, we rate it a Speculative Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	36		770	916	1,018	1,058	1,067	1,101	1,129	1,150
Gross Profit	17									
Gross Margin	47.1%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A Exp.	0		35	72	85	103	105	101	101	103
D&A Exp.			376	434	452	406	329	291	293	311
Operating Profit	12		309	308	344	389	473	562	592	592
Operating Margin	34.1%		40.2%	33.6%	33.8%	36.8%	44.4%	51.0%	52.4%	51.5%
Net Profit	12		(0)	(9)	16	11	(706)	124	(8)	(82)
Net Margin	34.1%		0.0%	-1.0%	1.6%	1.0%	-66.2%	11.2%	-0.7%	-7.1%
Free Cash Flow			341	239	49	267	(160)	113	33	(64)
Income Tax			1	(39)	(5)	5	(15)	(5)	(17)	(68)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17	2,543	3,319	4,330	4,593	5,017	4,732	4,809	4,851	5,025
Cash & Equivalents		142	172	60	38	143	78	59	44	62
Accounts Receivable	2	14	44	91	166	80	76	80	111	137
Goodwill & Int. Ass.	14	11	423	1,103	1,125	1,223	993	967	696	462
Total Liabilities	8	3,710	4,641	5,454	6,000	6,500	6,804	6,923	7,122	7,509
Accounts Payable		10	41	78	94	227	146	87	122	119
Long-Term Debt	-		4,028	4,483	4,846	5,018	4,817	5,091	5,189	5,524
Shareholder's Equity	9	(1,167)	(1,402)	(1,309)	(1,586)	(1,567)	(2,142)	(2,128)	(2,274)	(2,486)
LTD/E Ratio	-		(3.05)	(3.66)	(3.23)	(3.20)	(2.25)	(2.39)	(2.28)	(2.22)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	63.8%		0.0%	-0.2%	0.4%	0.2%	-14.5%	2.6%	-0.2%	-1.7%
Return on Equity	117%									
ROIC	117%		0.0%	-0.3%	0.5%	0.3%	-22.5%	4.3%	-0.3%	-2.7%
Shares Out.		150.5	155.8	175.4	183.1	193.3	232.9	236.3	237.3	238.8
Revenue/Share	0.24		5.05	5.42	5.75	5.64	5.24	4.17	4.79	4.86
FCF/Share			2.24	1.42	0.28	1.42	(0.79)	0.43	0.14	(0.27)

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