



American Assets Trust (AAT)

Updated February 24th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	13.8%	Market Cap:	\$1.7 B
Fair Value Price:	\$29	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/6/2025
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.4%	Dividend Payment Date:	3/20/2025
Dividend Yield:	6.2%	5 Year Price Target	\$35	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

American Assets Trust (AAT) is a real estate investment trust (REIT) that was formed in 2011 as a successor of American Assets, a privately held company founded in 1967. AAT is headquartered in San Diego, California, and has great experience in acquiring, improving and developing office, retail and residential properties throughout the U.S., primarily in Southern California, Northern California, Oregon, Washington and Hawaii. Its office portfolio and its retail portfolio comprise of approximately 4.1 million and 3.1 million square feet, respectively. AAT also owns more than 2,100 multifamily units and has a market capitalization of \$1.7 billion.

In early February, AAT reported (2/4/25) financial results for the fourth quarter of fiscal 2024. Adjusted same-store net operating income grew 3% but funds from operations (FFO) per share dipped -4% over the prior year's quarter due to higher interest expense. Due to this headwind, AAT provided weak guidance for 2025, expecting FFO per share of \$1.87-\$2.01. We note that AAT has beaten the analysts' estimates for 16 consecutive quarters but we expect FFO per share of \$1.95 this year, in line with the guidance of management. We also note that the REIT appears somewhat resilient to high inflation thanks to its ability to raise rental rates every year. AAT has raised its dividend by 1.5% this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
FFO	\$1.77	\$1.85	\$1.92	\$2.09	\$2.19	\$1.89	\$2.00	\$2.34	\$2.40	\$2.58	\$1.95	\$2.37
DPS	\$0.95	\$1.01	\$1.05	\$1.09	\$1.14	\$1.00	\$1.16	\$1.28	\$1.32	\$1.34	\$1.36	\$1.44
Shares¹	62.3	63.2	64.1	64.1	70.8	76.1	76.2	76.3	76.4	76.6	76.8	100.0

AAT pursues growth by acquiring properties in submarkets with favorable supply and demand characteristics, including high barriers to entry. It also redevelops several of its newly-acquired properties in order to enhance their value. In addition, it has a capital recycling strategy, which involves selling properties whose returns seem to have been maximized and buying high-return properties. Thanks to these growth drivers, AAT has grown its adjusted FFO per share at a 4.3% average annual rate over the last decade. Its FFO per share are poised to decrease significantly this year due to high interest expense amid high interest rates. Nevertheless, we expect this headwind to abate in the upcoming years and thus we expect 4.0% average annual growth of FFO per share over the next five years off this year's low base.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
P/FFO	23.2	22.0	21.2	17.6	20.8	15.9	17.8	13.4	8.8	9.3	11.3	14.7
Avg. Yld.	2.3%	2.5%	2.6%	3.0%	2.5%	3.3%	3.3%	4.1%	6.3%	5.6%	6.2%	4.1%

AAT is trading at a price-to-FFO ratio of 11.3, which is lower than the 7-year average price-to-FFO ratio of 14.7. The somewhat rich historical valuation of AAT has resulted from its consistent growth year after year, until the onset of the pandemic. The depressed current valuation has resulted from the impact of high interest rates on interest expense. We

¹ In millions.

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expect AAT to revert to its average valuation level over the next five years. If AAT trades at that level in five years, it will enjoy a 5.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	54%	55%	55%	52%	52%	53%	58%	55%	55%	52%	70%	61%

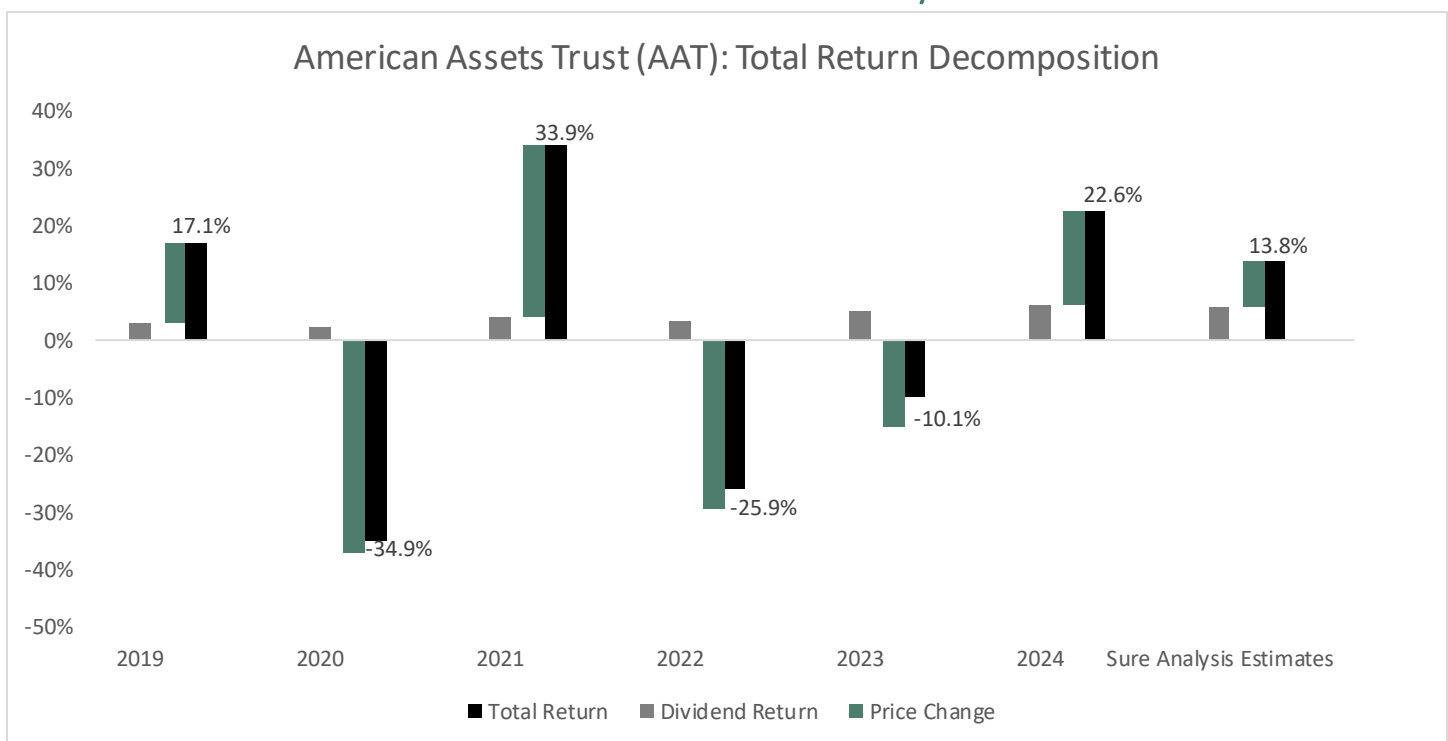
Many of the properties of AAT are located in in-fill locations, where developable land is scarce and zoning regulations significantly restrict new development. Moreover, its submarkets in Southern California, Northern California, Oregon, Washington and Hawaii are characterized by high barriers to entry, which offer the REIT a strong negotiating position with its tenants and enable it to implement material rent hikes every year.

AAT is offering an attractive dividend yield of 6.2%. Given the decent (for a REIT) payout ratio of 70% and the reliable growth trajectory of the REIT, the dividend is safe. The only caveat is the material debt load of AAT, which has an interest coverage ratio of only 1.9, much less than our comfort minimum of 3.0. On the bright side, AAT has received investment grade ratings from the major rating agencies. Given the decent growth potential of AAT, we do not expect it to face any problems servicing its debt for the foreseeable future but investors should be aware of this risk factor, which renders the REIT somewhat vulnerable to recessions. AAT was not public in the Great Recession, and hence it has not been tested in a severe recession. AAT cut its dividend by -12% in 2020 due to the pandemic.

Final Thoughts & Recommendation

AAT is hurt by the environment of high inflation and interest rates but we view this headwind as temporary and consider the stock highly attractive from a long-term perspective. The stock could offer a 13.8% average annual return over the next five years thanks to its 4.0% growth of FFO per share, its 6.2% dividend yield and a 5.4% annualized valuation tailwind. The security maintains its buy rating but we reiterate that patience may be required until interest rates revert to normal levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	276	295	315	331	367	345	376	423	441	458
Gross Profit	178	187	198	209	235	223	246	270	277	290
Gross Margin	64.4%	63.4%	63.0%	63.3%	64.0%	64.8%	65.5%	63.8%	62.8%	63.4%
SG&A Exp.	20	18	21	23	25	27	30	32	36	35
D&A Exp.	63	71	83	107	96	108	116	123	120	125
Operating Profit	94	98	94	80	114	89	100	115	122	129
Operating Margin	34.2%	33.2%	29.7%	24.0%	31.0%	25.7%	26.6%	27.2%	27.7%	28.2%
Net Profit	54	46	40	27	60	36	37	56	65	73
Net Margin	19.6%	15.5%	12.7%	8.2%	16.4%	10.3%	9.7%	13.2%	14.7%	15.9%
Free Cash Flow	(24)	61	98	82	65	63	64	65	106	137

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,974	1,987	2,260	2,198	2,790	2,817	3,018	2,988	2,985	3,273
Cash & Equivalents	40	45	83	48	99	137	140	50	83	426
Accounts Receivable	8	9	10	9	12	7	7	8	8	7
Goodwill & Int. Ass.	18	12	10	10	34	29	32	64	20	16
Total Liabilities	1,145	1,148	1,416	1,396	1,497	1,564	1,808	1,802	1,831	2,149
Accounts Payable	32	32	38	47	63	59	65	66	61	64
Long-Term Debt	1,056	1,062	1,325	1,291	1,358	1,407	1,649	1,648	1,690	2,011
Shareholder's Equity	800	810	834	803	1,314	1,271	1,239	1,221	1,198	1,176
D/E Ratio	1.32	1.31	1.59	1.61	1.03	1.11	1.33	1.35	1.41	1.71

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.8%	2.3%	1.9%	1.2%	2.4%	1.3%	1.3%	1.9%	2.2%	2.3%
Return on Equity	7.0%	5.7%	4.9%	3.3%	5.7%	2.8%	2.9%	4.5%	5.5%	6.4%
ROIC	2.9%	2.4%	2.0%	1.3%	2.5%	1.3%	1.3%	2.0%	2.3%	2.4%
Shares Out.	62.3	63.2	64.1	64.1	70.8	76.1	76.2	76.23	76.34	76.51
Revenue/Share	4.42	4.67	4.91	5.16	5.18	4.53	4.93	5.54	5.78	5.98
FCF/Share	(0.38)	0.97	1.53	1.28	0.93	0.83	0.84	0.86	1.39	1.79

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

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