



Firm Capital Property Trust (FRMUF)

Updated March 31st, 2025 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|--------|---|-------------|----------------------------------|------------|
| Current Price: | \$4.05 | 5 Year Annual Expected Total Return: | 5.9% | Market Cap: | \$149 M |
| Fair Value Price: | \$3.60 | 5 Year Growth Estimate: | 0.0% | Ex-Dividend Date: | 03/31/2025 |
| % Fair Value: | 113% | 5 Year Valuation Multiple Estimate: | -2.3% | Dividend Payment Date: | 04/15/2025 |
| Dividend Yield: | 8.9% | 5 Year Price Target | \$3.60 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | F | Sector: | Real Estate | Rating: | Sell |

Overview & Current Events

Firm Capital Property Trust is a Canadian REIT that owns and co-owns a diversified portfolio of income-producing real estate across three core segments: industrial, multi-residential/manufactured home communities (MHCs), and grocery-anchored and service-based retail. The Trust emphasizes capital preservation and disciplined investing, often partnering with institutional-grade operators through joint ventures. As of its latest report, its portfolio has over 4.3 million square feet of commercial space, alongside nearly 600 apartment units and over 500 MHC sites, with properties located in key markets across Ontario, Quebec, Alberta, and the Maritimes. The portfolio is widely diversified by geography and tenant base, with a strong focus on necessity-driven uses and high occupancy across asset classes. The Trust pays dividends on a monthly basis and currently has a market cap of \$149 million.

On November 7th, 2024, Firm Capital Property Trust released its financial results for the quarter ended September 30th, 2024. Rental revenue for the quarter totaled \$11.02 million, driven by strong occupancy across its diversified portfolio of industrial, residential, and retail properties. Overall portfolio occupancy was still high, with residential and manufactured home communities operating near or at full capacity, and retail and industrial assets maintaining solid leasing levels.

Net operating income (NOI) came in at \$7.17 million, reflecting the Trust's disciplined operating cost management and steady rental performance. Funds from Operations (FFO) for Q3 were \$3.53 million, or \$0.095 per unit. We expect the company to finish the year with FFO per share of \$0.36, due to continued FX headwinds.

Growth on a Per-Share Basis

| Year | 2014 | 2025 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| FFO/U | --- | --- | --- | \$0.51 | \$0.37 | \$0.37 | \$0.43 | \$0.36 | \$0.40 | \$0.38 | \$0.36 | \$0.36 |
| DPU | \$0.33 | \$0.29 | \$0.32 | \$0.35 | \$0.34 | \$0.37 | \$0.39 | \$0.40 | \$0.38 | \$0.39 | \$0.36 | \$0.36 |
| Units¹ | 8.9 | 11.4 | 12.7 | 13.6 | 17.5 | 30.6 | 29.3 | 34.0 | 37.1 | 36.9 | 36.9 | 145.0 |

Over the past several years, Firm Capital Property Trust's FFO/unit has been mostly trending downward in USD terms. FX movements have generally negatively affected the metric in recent years. However, several other factors played a role as well. In 2017, FFO/unit was \$0.51, supported by strong leasing activity, a smaller and more concentrated portfolio, and relatively low borrowing costs. However, by 2018, FFO declined to \$0.37, where it remained flat through 2019. This period saw the Trust expanding more aggressively into joint venture structures, which, while accretive on an absolute basis, diluted per-unit metrics due to partial ownership of new properties.

In 2020, FFO/unit rose modestly to \$0.43, despite the onset of the COVID-19 pandemic. This resilience was largely driven by the nature of the portfolio, as Firm Capital focused heavily on essential and necessity-based real estate like grocery-anchored retail, industrial, and multi-residential assets, which continued to perform through the crisis.

FFO fell to \$0.36 USD in 2021 due to pandemic-related leasing delays, high operating costs, and low interest rates. It rebounded to \$0.40 in 2022 with stabilized leasing and improved occupancy, but edged down to \$0.38 in 2023 amid rising interest expenses and slower growth in tighter capital markets.

¹ Share count is in millions.

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Moving forward, we don't forecast any growth in FFO/unit and DPU, as interest rate and FX headwinds could continue pressuring profitability. Note that the dividend grew annually between 2015 and 2022 but has since remained stable in CAD terms.

Valuation Analysis

| Year | 2014 | 2025 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|-------|-------------|--------------|
| Avg. P/E | --- | --- | --- | --- | 13.5 | 11.6 | 13.5 | 14.7 | 10.3 | 10.0 | 11.3 | 10.0 |
| Avg. Yld. | --- | --- | --- | --- | 6.8% | 8.6% | 6.7% | 7.5% | 9.3% | 10.3% | 8.9% | 10.0% |

Firm Capital's P/FFO has generally traded in the 10x to 14x range in recent years, reflecting a balance between its stable income profile and more modest growth outlook. The stock has historically been viewed as a conservative, income-focused REIT, which has kept valuations steady but not stretched. However, given the lack of notable growth prospects, we have set our fair multiple at 10x, implying the possibility of further valuation headwinds ahead. Their dividend yield, now at 8.9%, should be the main driver of investor returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

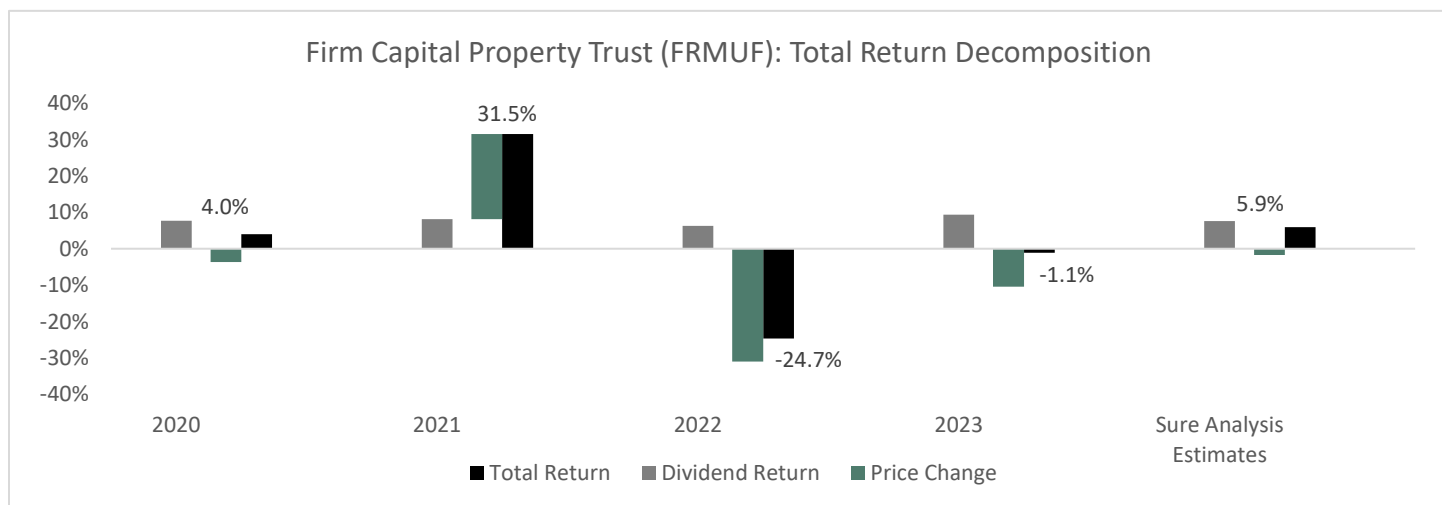
| Year | 2014 | 2025 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Payout | --- | --- | --- | 69% | 92% | 100% | 91% | 111% | 95% | 103% | 100% | 100% |

Firm Capital emphasizes capital preservation and income stability, with a diversified property portfolio across industrial, residential, MHCs, and necessity-based retail, industries sectors known for their strength in downturns. High occupancy, prudent leverage, and a joint venture model enhance safety and limit downside risk. Its focus on critical-use properties in strong secondary markets provides a niche competitive advantage. However, its conservative growth strategy and limited scale compared to larger REITs can cap upside in bull markets, and rising interest rates or refinancing costs could pressure cash flows over time. We also remain cautious of the Trust's ability to maintain the current level of distribution should its FFO face additional pressure moving forward.

Final Thoughts & Recommendation

Firm Capital offers hefty distributions backed by essential-use assets and high occupancy, but limited growth, elevated interest costs, and a tight AFFO payout ratio raise questions about the long-term sustainability of its current yield. We believe rate the Trust a sell today despite forecasting mid-single-digit annual total returns ahead (to be driven mainly by the starting yield, offset by a valuation headwind), due to the lack of dividend hikes in local currency in recent 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 | 9 | 10 | 12 | 15 | 17 | 27 | 33 | 37 | 42 | 43 |
| Gross Profit | 5 | 6 | 7 | 9 | 10 | 17 | 21 | 24 | 27 | 27 |
| Gross Margin | 60.8% | 58.9% | 58.0% | 59.7% | 59.5% | 63.6% | 64.1% | 65.1% | 65.6% | 63.9% |
| SG&A Exp. | 1 | 1 | 1 | 2 | 2 | 3 | 3 | 6 | 3 | 3 |
| Operating Profit | 4 | 5 | 6 | 7 | 9 | 14 | 18 | 18 | 24 | 24 |
| Operating Margin | 50.6% | 49.3% | 46.8% | 48.8% | 50.2% | 52.0% | 55.6% | 47.8% | 58.1% | 56.5% |
| Net Profit | 4 | 7 | 6 | 13 | 12 | 27 | 12 | 47 | (1) | 11 |
| Net Margin | 48.4% | 72.3% | 49.0% | 84.0% | 71.8% | 98.8% | 35.5% | 126% | -2.2% | 26.7% |
| Free Cash Flow | 4 | (3) | (21) | (4) | 2 | (118) | 9 | (38) | (43) | 17 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 82 | 96 | 124 | 161 | 163 | 364 | 377 | 452 | 467 | 480 |
| Cash & Equivalents | 2 | 3 | 0 | - | 3 | 10 | 4 | 5 | 4 | 6 |
| Accounts Receivable | 0 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 1 | 2 |
| Total Liabilities | 40 | 47 | 66 | 87 | 71 | 188 | 202 | 220 | 249 | 261 |
| Accounts Payable | 38 | 45 | 62 | 83 | 68 | 181 | 195 | 208 | 240 | 253 |
| Long-Term Debt | 42 | 48 | 57 | 74 | 91 | 175 | 175 | 232 | 218 | 220 |
| Shareholder's Equity | 0.92 | 0.93 | 1.09 | 1.13 | 0.74 | 1.03 | 1.11 | 0.89 | 1.10 | 1.15 |
| LTD/E Ratio | 82 | 96 | 124 | 161 | 163 | 364 | 377 | 452 | 467 | 480 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|-------|--------|--------|--------|-------|--------|------|--------|--------|------|
| Return on Assets | 6.1% | 8.3% | 5.5% | 8.8% | 7.5% | 10.2% | 3.2% | 11.2% | -0.2% | 2.4% |
| Return on Equity | 12.4% | 16.4% | 11.4% | 19.1% | 14.8% | 20.2% | 6.7% | 22.9% | -0.4% | 5.2% |
| ROIC | 6.3% | 8.5% | 5.6% | 9.0% | 7.7% | 10.4% | 3.3% | 11.5% | -0.2% | 2.4% |
| Shares Out. | 8.9 | 11.4 | 12.7 | 13.6 | 17.5 | 30.6 | 29.3 | 34.0 | 37.1 | 36.9 |
| Revenue/Share | 1.00 | 0.89 | 0.97 | 1.10 | 0.97 | 0.89 | 1.13 | 1.09 | 1.12 | 1.15 |
| FCF/Share | 0.49 | (0.31) | (1.64) | (0.26) | 0.09 | (3.86) | 0.30 | (1.10) | (1.15) | 0.45 |

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

Disclaimer

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