Postal Realty Trust, Inc. (PSTL)

Updated March 3rd, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	$13.89	**5 Year CAGR Estimate:**	11.2%	**Market Cap:**	$327 M
Fair Value Price:	$15.73	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	05/07/2025
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.5%	**Dividend Payment Date:**	05/30/2025[1]
Dividend Yield:	7.1%	**5 Year Price Target**	$18.24	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Postal Realty Trust focuses on acquiring and managing properties leased exclusively to the United States Postal Service (USPS), ranging from last-mile post offices to larger industrial facilities. The company is the USPS' largest lessor, having an interest in 1,703 real estate properties located in 49 states, totaling approximately 6.4 million net leasable interior square feet. These properties are currently 99.6% occupied. Postal Realty also manages an additional 360 properties and has a right of first offer to purchase them. Postal Realty recorded revenues of $76.4 million last year. The company is based in Cedarhurst, New York.

On January 31st, 2025, Postal Realty raised its dividend by 1% to a quarterly rate of $0.2425.

On February 26th, 2025, Postal Realty posted its Q4 and full-year results for the period ending December 31st, 2024. For the quarter, revenues grew 25.4% year-over-year to $20.4 million, powered by higher rental income and higher fee income. The growth in rental income was, in turn, driven by the company's acquisition spree over the past four quarters. Specifically, the company acquired 197 properties last year, including 63 properties in Q4.

Adjusted Funds from Operations came in at $10.6 million, or $0.35 per diluted share, up from $7.0 million, or $0.24 per share, last year. The per-share result was hampered by the additional shares that were issued to fund the company's acquisitions.

Management continued to execute its serial acquisition strategy subsequent to the quarter, acquiring an additional 18 properties. The company has another 14 properties totaling approximately $8.9 million under definitive contracts. For Fiscal Year 2025, management expects FFO/share to land between $1.20 and $1.22.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
FFO/shr	---	---	---	---	---	$0.85	$0.95	$0.96	$0.96	$1.16	***$1.21***	***$1.40***
DPS	---	---	---	---	$0.20	$0.79	$0.89	$0.93	$0.95	$0.96	***$0.98***	***$1.14***
Shares[2]	---	---	---	---	5.2	7.0	13.7	18.6	20.1	20.6	***20.6***	***26.0***

Postal Realty has been growing through acquiring and consolidating properties leased to the United States Postal Service – it has been on this journey over the past 30 years. Growth from lease renewals at higher rates over time should also contribute to growth, as renewing a lease is a more attractive economic alternative than moving for USPS, even if it's at a higher rate. The fact that USPS is also responsible for the majority of property expenses should also allow for a decent expansion in margins over time.

Nevertheless, from what we've seen thus far during the company's short period in the public markets, continuous dilution has suppressed any potential growth in the per-share metrics. We expect FFO/share growth of about 3% over the medium-term, expecting that lease renewals and acquisitions will eventually be accretive to results while remaining relatively prudent. In terms of the dividend, it grew for 14 consecutive quarters up to the first quarter of 2023, by

[1] Estimated dates based on past dividend dates.
[2] Share count is 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.

fractional amounts, which eventually added up. Sequential increases no longer take place. We estimate dividend-per-share growth of 3% through 2030, expecting the company to keep distributing the majority of its operating cash flows.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/FFO	---	---	---	---	---	17.6	19.3	16.8	14.5	12.1	***11.5***	***13.0***
Avg. Yld.	---	---	---	---	---	5.2%	4.9%	5.8%	6.8%	6.8%	***7.1%***	***6.2%***

Shares of Postal Realty have seen their valuation contract in recent years as a result of a lack of meaningful growth in the company's per-share metrics, as well as rising interest rates that have further weighed down on the REIT's profitability prospects. Normally, we would assign a fair multiple in the high-single-digits to the stock, but given its strong qualities, we have set Postal Realty's P/FFO at 13x. The 7.1% yield is substantial, though it mirrors Postal Realty's limited per-share growth potential, exacerbated by the adverse impact of rising interest rates on its profitability.

Safety, Quality, Competitive Advantage, & Recession Resiliency

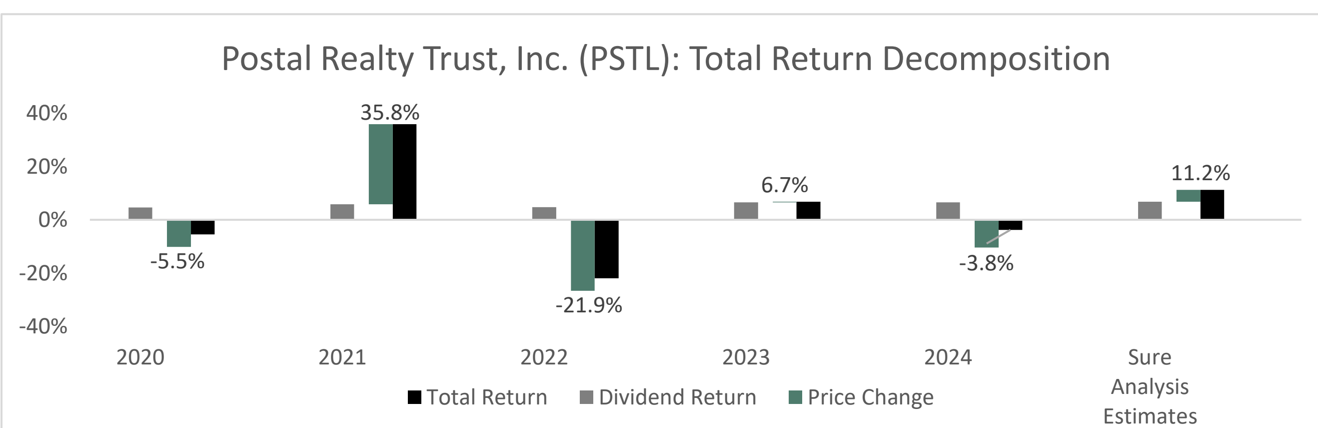
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	---	---	---	93%	93%	97%	99%	83%	***81%***	***81%***

Despite the high payout ratio, we believe that Postal Realty's dividend is safe and backed by the company's multi-year leases and predictable cash flow generation. The most recent dividend increase strengthens this argument. Postal Realty's numerous qualities should also bolster its investment case. These include the fact that –despite the lack of tenant diversification– USPS is an incredibly trustworthy tenant that will never miss on its rental payments. Due to its Federal government-supported credit, the rental collection has consistently been 100%, while the USPS' operating lease payments were only 1.5% of total operating expenses last year. Additionally, due to USPS's mission-critical logistics network being irreplaceable, Postal Realty's historical weighted average lease retention rate stands at 99% - hence the near 100% occupancy rates. The benefits of having USPS as your sole tenant make for some great competitive traits. For these reasons, we believe the company should keep producing rather robust results during a recession. Balance sheet-wise, Postal Realty's net debt/adjusted EBITDA stands at 5.2X. Hence, we remain wary of rising interest costs.

Final Thoughts & Recommendation

Postal Realty is a truly unique REIT, with its exclusive focus on USPS properties forming a fantastic set of operating qualities. That said, we remain cautious regarding the company's ability to meaningfully grow its per-share metrics, given the current pace of dilution. Still, out total return estimate comes in at 11.2% per annum, stemming from 3% growth, the 7.1% dividend yield, and the potential for modest valuation tailwinds. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	---	---	7	8	11	24	40	53	64
Gross Profit	---	---	---	5	6	9	19	31	41	48
Gross Margin	---	---	---	76.9%	75.7%	77.2%	79.5%	76.5%	77.4%	43.8%
SG&A Exp.	---	---	---	1	1	5	8	11	13	14.7
D&A Exp.	---	---	---	1	2	3	8	12	16	17
Operating Profit	---	---	---	2	3	0	2	6	9.7	14
Operating Margin	---	---	---	30.6%	33.5%	0.6%	8.3%	14.8%	18.3%	21.9%
Net Profit	---	---	---	1	1	(1)	(0)	2	3.9	3.7
Net Margin	---	---	---	16.4%	14.8%	-9.2%	-1.4%	5.1%	7.4%	5.8%
Free Cash Flow	---	---	---	2	3	3	9	17	21	25.6
Income Tax	---	---	---	(1)	(0)	0	0	0	0	0.07

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	---	34	36	137	259	378	501	567
Cash & Equivalents	---	---	---	0	0	12	2	6	1.5	2.2
Accounts Receivable	---	---	---	1	1	2	4	4	4.6	4.8
Goodwill & Int. Ass.	---	---	---	3	3	7	13	15	18	16
Total Liabilities	---	---	---	44	41	67	139	112	218	266
Accounts Payable	---	---	---	2					---	---
Long-Term Debt	---	---	---	38	35	57	125	95	197	241
Shareholder's Equity	---	---	---	(10)	(6)	49	92	220	229	244
LTD/E Ratio	---	---	---	(3.75)	(6.15)	1.17	1.35	0.43	0.86	0.99

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	---	3.3%	-1.2%	-0.2%	0.6%	0.9%	0.7%
Return on Equity	---	---	---	---	---	-4.8%	-0.5%	1.3%	1.7%	1.3%
ROIC	---	---	---	---	4.0%	-1.3%	-0.2%	0.7%	0.9%	0.7%
Shares Out.	---	---	---	---	---	5.2	7.0	13.7	18.6	20.2
Revenue/Share	---	---	---	1.27	1.45	2.19	3.49	2.92	2.88	3.16
FCF/Share	---	---	---	0.43	0.51	0.55	1.34	1.25	1.13	1.27

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