



STAG Industrial (STAG)

Updated November 8th, 2019 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---------------------------------|-------|
| Current Price: | \$30 | 5 Year CAGR Estimate: | 7.8% | Volatility Percentile: | 20.3% |
| Fair Value Price: | \$27 | 5 Year Growth Estimate: | 6.0% | Momentum Percentile: | 72.7% |
| % Fair Value: | 111% | 5 Year Valuation Multiple Estimate: | -2.0% | Growth Percentile: | 57.9% |
| Dividend Yield: | 4.8% | 5 Year Price Target | \$36 | Valuation Percentile: | 44.7% |
| Dividend Risk Score: | D | Retirement Suitability Score: | C | Total Return Percentile: | 52.6% |

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 430 buildings across 37 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$4.0 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 56% of the tenants are publicly rated and 31% of the tenants are rated "investment grade." The company typically does business with established tenants to reduce risk.

Like most REITs, STAG Industrial has benefited from the dovish stance of the Fed this year. Lower interest rates render the yields of REITs more attractive and thus provide a tailwind to their valuation. Moreover, lower interest rates help REITs refinance their debt at a lower cost. REITs, utilities and MLPs are the most sensitive securities to interest rates. Lower rates have led STAG Industrial to rally 29% off its bottom at the end of last year, along with the broad market.

In late October, STAG Industrial reported (10/30/19) financial results for the third quarter of fiscal 2019. The report was very similar to the previous one. Core FFO increased 22% over last year's quarter thanks to the strength of the industrial market. However, core FFO per share rose only 2% due to extensive issuance of new units. Net operating income grew 17.5% over last year's quarter. During the quarter, the REIT acquired 22 buildings for \$302.6 million at an average capitalization rate of 6.2% and achieved an occupancy rate of 94.8%.

Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---------------------------|------|------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| FFO | --- | --- | \$1.03 | \$1.25 | \$1.44 | \$1.33 | \$1.42 | \$1.43 | \$1.70 | \$1.79 | \$1.83 | \$2.45 |
| DPS | --- | --- | \$0.73 | \$1.07 | \$1.20 | \$1.29 | \$1.36 | \$1.39 | \$1.41 | \$1.42 | \$1.43 | \$1.50 |
| Shares¹ | --- | --- | 15.6 | 25.1 | 42.4 | 53.2 | 66.6 | 69.8 | 100.2 | 115.1 | 131.0 | 200.0 |

STAG Industrial has grown its FFO at a 5.9% average annual rate in the last seven years. It still has a market share that is less than 1% of its target market. Therefore, it has ample room to continue to grow for years and hence it can be reasonably expected to keep growing at its recent pace in the upcoming years. If the REIT grows its FFO per share at a 6.0% annual rate, its FFO per share will grow from \$1.83 this year to \$2.45 in 2024.

Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg P/FFO | --- | --- | 11.1 | 14.4 | 14.2 | 18.4 | 13.0 | 16.7 | 16.4 | 14.5 | 16.4 | 14.8 |
| Avg. Yld. | --- | --- | 6.4% | 7.2% | 5.7% | 5.6% | 6.4% | 6.4% | 5.3% | 5.5% | 4.8% | 4.1% |

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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STAG Industrial is currently trading at a P/FFO ratio of 16.4, which is higher than its historical average of 14.8. If the stock reverts to its average valuation level over the next five years, it will incur a 2.0% annualized drag due to the contraction of its P/FFO ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | --- | --- | 70.9% | 85.6% | 83.3% | 97.0% | 95.8% | 97.2% | 84.4% | 79.3% | 78.1% | 61.2% |

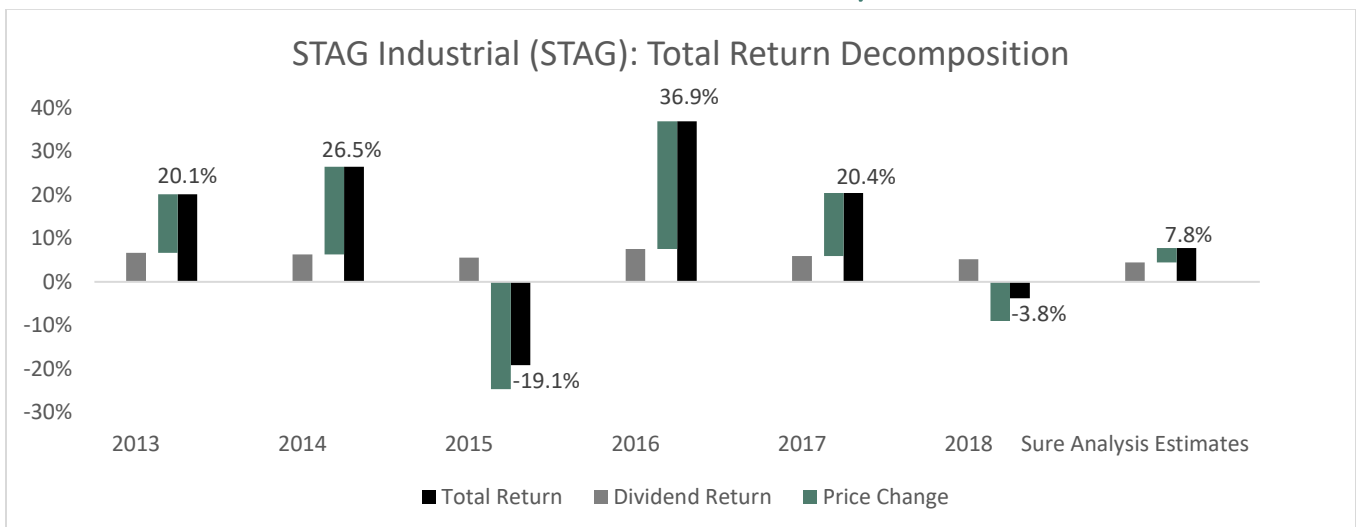
STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 4.9 years and about half of the leases maturing after the end of 2022. Thus the cash flows of the REIT can be considered reliable for the foreseeable future. Thanks to reliable cash flows, STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a generous 4.8% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years. On the other hand, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than tripled, from 42 million in 2013 to 131 million now. While the dividend per share has risen only 18% since 2013, the annual amount paid has more than doubled, from \$76 million in 2013 to \$181 million in the last 12 months. As a result, the financial burden of the dividend on the REIT has greatly increased.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. As a recession has not occurred for a whole decade, investors should certainly take this risk factor into account. Overall, STAG Industrial is likely to keep raising its dividend at a slow pace until a recession shows up. In such an event, the REIT will have an elevated probability of reducing its dividend due to the nature of its business model.

Final Thoughts & Recommendation

STAG Industrial continues to grow thanks to favorable economic conditions. In the absence of a recession, this REIT could offer a 7.8% average annual return over the next five years. However, it fails to earn a buy rating due to its high vulnerability in the event of a recession. We rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|--------|--------|--------|-------|-------|-------|--------|-------|-------|-------|
| Revenue | 30 | 26 | 44 | 84 | 134 | 174 | 219 | 250 | 301 | 351 |
| Gross Profit | 25 | 20 | 39 | 71 | 110 | 140 | 176 | 201 | 243 | 282 |
| Gross Margin | 82.3% | 76.4% | 87.6% | 84.7% | 82.1% | 80.8% | 80.5% | 80.5% | 80.8% | 80.3% |
| SG&A Exp. | 1 | 1 | 5 | 15 | 18 | 26 | 29 | 33 | 33 | 34 |
| D&A Exp. | 11 | 10 | 21 | 48 | 77 | 94 | 119 | 132 | 155 | 172 |
| Operating Profit | 10 | 10 | 10 | 14 | 24 | 26 | 37 | 43 | 59 | 80 |
| Op. Margin | 34.5% | 38.6% | 23.6% | 16.9% | 18.3% | 15.1% | 16.8% | 17.0% | 19.6% | 22.9% |
| Net Profit | -6 | -3 | -5 | -6 | 6 | -4 | -27 | 35 | 31 | 93 |
| Net Margin | -18.4% | -11.4% | -10.3% | -7.7% | 4.1% | -2.1% | -12.5% | 13.8% | 10.4% | 26.5% |
| Free Cash Flow | 7 | 9 | 15 | 48 | 83 | 97 | 122 | 136 | 162 | 198 |

Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 220 | 509 | 625 | 1005 | 1270 | 1629 | 1902 | 2186 | 2681 | 3103 |
| Cash & Equivalents | 3 | 1 | 16 | 19 | 7 | 24 | 12 | 12 | 25 | 8 |
| Accounts Receivable | 4 | N/A | 6 | 9 | 14 | 17 | 21 | 25 | 34 | 42 |
| Goodwill & Int. Ass. | N/A | 4 | 5 | 5 | N/A | N/A | N/A | N/A | N/A | N/A |
| Total Liabilities | 222 | 266 | 315 | 516 | 596 | 738 | 1044 | 1119 | 1270 | 1433 |
| Accounts Payable | N/A | 4 | 6 | 12 | 19 | 22 | 26 | 35 | 43 | 46 |
| Long-Term Debt | 212 | 240 | 297 | 479 | 556 | 686 | 980 | 1036 | 1174 | 1326 |
| Shareholder's Equity | -2 | 156 | 162 | 359 | 464 | 725 | 683 | 882 | 1214 | 1539 |
| D/E Ratio | -140 | 1.54 | 1.29 | 1.12 | 0.92 | 0.79 | 1.19 | 1.01 | 0.86 | 0.82 |

Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|-------|------|-------|-------|------|-------|-------|
| Return on Assets | -2.5% | -0.8% | -0.8% | -0.8% | 0.5% | -0.3% | -1.6% | 1.7% | 1.3% | 3.2% |
| Return on Equity | -221% | -3.8% | -2.9% | -2.5% | 1.3% | -0.6% | -3.9% | 4.4% | 3.0% | 6.8% |
| ROIC | -2.6% | -0.8% | -0.8% | -0.8% | 0.5% | -0.3% | -1.6% | 1.8% | 1.3% | 3.3% |
| Shares Out. | ---- | ---- | 15.6 | 25.1 | 42.4 | 53.2 | 66.6 | 69.8 | 100.2 | 115.1 |
| Revenue/Share | 2.15 | 1.20 | 2.77 | 3.36 | 3.16 | 3.21 | 3.30 | 3.53 | 3.35 | 3.38 |
| FCF/Share | 0.50 | 0.43 | 0.96 | 1.92 | 1.95 | 1.79 | 1.84 | 1.92 | 1.80 | 1.91 |

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

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