



NNN REIT, Inc. (NNN)

Updated August 7th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$46.5	5 Year CAGR Estimate:	5.8%	Market Cap:	\$8.6B
Fair Value Price:	\$39.5	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/30/24 ¹
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	11/15/24 ¹
Dividend Yield:	5.0%	5 Year Price Target	\$48	Years of Dividend Growth:	34
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

National Retail Properties is a REIT that owns ~3,000 single-tenant, net-leased retail properties across the United States. It is focused on retail customers because they are much more likely to accept rent hikes to avoid switching locations and losing their customer base. Thanks to this strategy, National Retail has offered consistent growth with markedly low volatility. It is also characterized by very high occupancy rates; its 15-year low occupancy rate is 96% and it typically ranges between 98%-99%.

On August 1, 2024, NNN REIT, Inc. (NNN), a real estate investment trust, reported its operating results for the quarter and six months ending June 30, 2024. The company recorded revenues of \$216.8 million for the second quarter, up from \$202.6 million in the same period in 2023. Net earnings for the quarter were \$106.7 million, or \$0.58 per share, compared to \$98.7 million, or \$0.54 per share, in the prior year. For the first half of 2024, revenues reached \$432.2 million, up from \$406.7 million in 2023, with net earnings of \$201.0 million, or \$1.10 per share, versus \$188.9 million, or \$1.04 per share, in the previous year.

Funds from operations (FFO) for the second quarter were \$152.4 million, or \$0.83 per share, up from \$144.6 million, or \$0.80 per share, in 2023. Core FFO also rose to \$152.5 million, or \$0.83 per share, from \$144.9 million, or \$0.80 per share. Adjusted funds from operations (AFFO) increased to \$153.6 million, or \$0.84 per share, compared to \$146.1 million, or \$0.80 per share, the previous year. For the first six months, FFO was \$303.6 million, or \$1.66 per share, up from \$290.1 million, or \$1.60 per share. Core FFO reached \$304.1 million, or \$1.67 per share, compared to \$290.9 million, or \$1.60 per share, while AFFO was \$306.9 million, or \$1.68 per share, up from \$294.2 million, or \$1.62 per share. NNN maintained high occupancy levels at 99.3% with a weighted average lease term of 10.0 years as of June 30, 2024. The company invested \$110.5 million in 16 properties, sold 14 properties for \$67.3 million, and raised \$13.3 million from issuing common shares. Additionally, NNN issued \$500 million in senior unsecured notes and redeemed \$350 million of older notes. The company expanded its credit line capacity to \$1.2 billion. For the first half of the year, NNN invested \$235.0 million in 36 properties, sold 20 properties for \$85.8 million, and raised \$34.8 million from issuing shares.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	\$2.08	\$2.22	\$2.35	\$2.52	\$2.65	\$2.76	\$2.59	\$2.86	\$3.14	\$3.26	\$3.29	\$4.00
DPS	\$1.65	\$1.71	\$1.78	\$1.86	\$1.95	\$2.06	\$2.07	\$2.10	\$2.20	\$2.23	\$2.32	\$3.00
Shares¹	132.2	141	147.2	153.6	161.6	171.7	175.3	175.6	181.5	182.5	183.7	195

National Retail Properties has more than doubled its FFO since 2011, but it has also significantly increased its share count in order to fund its acquisitions of properties. As a result, the REIT has grown its FFO per share at a mid-single-digit rate per year on average since 2011. While the impact of dilution is noticeable, the dilution also has another, less obvious effect: it has greatly increased the financial burden of the dividend on the REIT.

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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We believe that growth will slow-moving forward as investment spreads compress, and the law of large numbers makes it increasingly challenging to move the needle with acquisitions. The trust's high level of occupancy should afford it low-single-digit levels of revenue growth, while slightly increasing margins should continue to see it growing FFO-per-share at a mid-single-digit rate despite the ever-rising share count. The bulk of National Retail's FFO-per-share growth will come from net new property acquisitions.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2014	2028
Avg. P/FFO	16.4	15.4	16.7	14.8	16.1	19.2	15.4	16.5	14.4	11.8	14.1	12.0
Avg. Yld.	4.8%	5.0%	4.5%	5.0%	4.6%	3.9%	5.2%	4.5%	4.9%	5.8%	5.0%	6.3%

Using expected 2024 FFO numbers, National Retail Properties is trading at a price-to-FFO ratio of 14.1. The trust's 10-year average price-to-FFO ratio is 14, and, while recent multiples have been far higher due to low interest rates and strong results, we believe that current headwinds and elevated interest rates justify a lower valuation. Therefore, we are placing 12 times FFO as our fair value estimate. Accordingly, we believe that multiple compression will provide a small headwind to the trust's total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	79%	77%	76%	74%	74%	75%	80%	73%	70%	68%	71%	75%

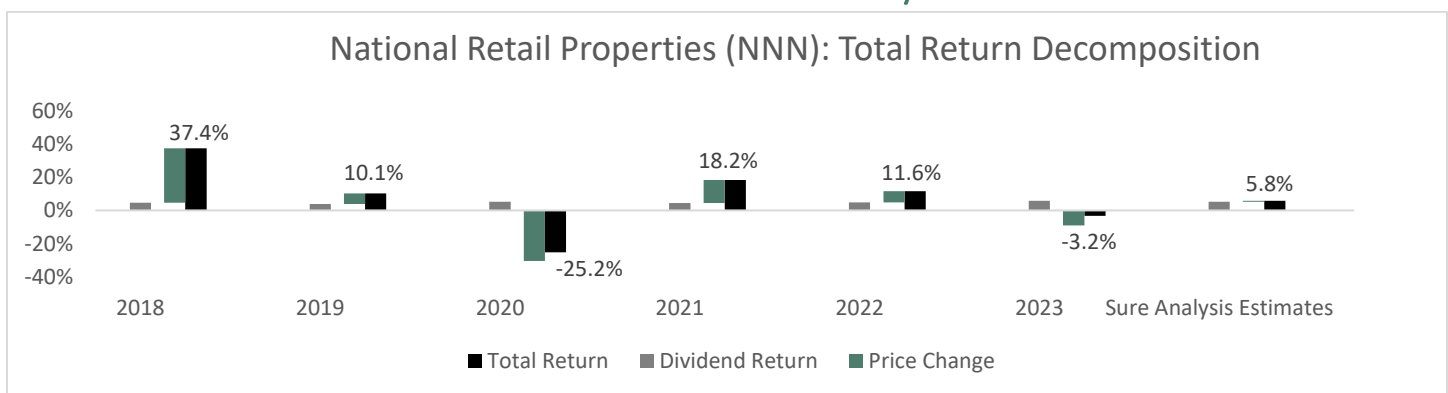
National Retail's payout ratio is being maintained near three-quarters of FFO, and we believe it will stay there for the foreseeable future. Given this, the dividend is fairly safe at this point with the trust's rising earnings. On the other hand, National Retail Properties is significantly impacted by recessions. In the Great Recession, its funds from operations per share plunged 34%, from \$1.99 in 2008 to \$1.31 in 2010. Nevertheless, given that the financial crisis was triggered by the bubble in the housing market, the performance of the REIT in that crisis was satisfactory.

However, investors should keep in mind that its downside potential will likely be significant whenever the next recession shows up, particularly given its current valuation. The trust lacks any durable competitive advantages, though its scale and business network are gradually growing over time, which could give it increasing pricing power and economies of scale.

Final Thoughts & Recommendation

National Retail Properties is an attractive dividend growth stock given its 5.0% dividend yield backed by a strong balance sheet, well-diversified portfolio, impressive dividend growth streak, and lengthy growth runway. Given that it offers an estimated 5.8% annualized total return over the next half decade, we rate it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	435	483	534	585	623	670	661	726	773	828
Gross Profit	416	463	513	562	598	643	632	698	747	800
Gross Margin	95.6%	95.9%	96.1%	96.0%	96.0%	95.9%	95.7%	96.1%	96.6%	96.6%
SG&A Exp.	33	35	37	34	34	38	38	45	50	47
D&A Exp.	116	135	149	174	174	189	197	205	224	239
Operating Profit	267	294	327	354	389	416	397	448	473	514
Operating Margin	61.5%	60.8%	61.3%	60.6%	62.5%	62.1%	60.2%	61.7%	61.2%	62.0%
Net Profit	191	198	240	265	292	299	229	290	335	392
Net Margin	43.8%	41.0%	44.9%	45.3%	47.0%	44.6%	34.6%	39.9%	43.3%	47.4%
Free Cash Flow	297	341	415	422	472	502	450	568	578	612
Income Tax	(0)	10								

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,916	5,460	6,334	6,561	7,103	7,435	7,638	7,751	8,146	8,662
Cash & Equivalents	11	14	295	1	114	1	267	171	3	1
Accounts Receivable	3	3	3	4	4	3	4	3	4	4
Goodwill & Int. Ass.	78	72	65	51	66	76	70	67	62	53
Total Liabilities	1,832	2,118	2,417	2,720	2,949	3,103	3,319	3,849	4,023	4,505
Long-Term Debt	1,730	1,976	2,312	2,580	2,851	2,988	3,221	3,746	3,916	4,361
Shareholder's Equity	2,508	2,767	2,997	3,208	3,522	3,987	3,974	3,902	4,124	4,157
LTD/E Ratio	0.56	0.59	0.59	0.67	0.69	0.69	0.75	0.96	0.95	1.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	3.8%	4.1%	4.1%	4.3%	4.1%	3.0%	3.8%	4.2%	4.7%
Return on Equity	6.5%	6.2%	6.6%	6.8%	7.3%	7.1%	5.3%	7.1%	8.3%	9.5%
ROIC	4.2%	3.9%	4.1%	4.2%	4.4%	4.2%	3.1%	3.8%	4.3%	4.7%
Shares Out.	132.2	141	147.2	153.6	161.6	171.7	175.3	175.6	181.5	182.5
Revenue/Share	3.49	3.59	3.69	3.91	3.98	4.06	3.84	4.16	4.37	4.56
FCF/Share	2.38	2.54	2.87	2.82	3.02	3.04	2.61	3.25	3.27	3.37

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

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