



Modiv Industrial Inc. (MDV)

Updated November 22nd, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$16.14	5 Year CAGR Estimate:	5.3%	Market Cap:	\$139 M
Fair Value Price:	\$15.00	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	11/29/2024
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	12/24/2024
Dividend Yield:	7.2%	5 Year Price Target	\$15.00	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Modiv Industrial (formerly known as Modiv) is Real Estate Investment Trust, which, as its name suggests, aims to pay Monthly Dividends to its shareholders. The company acquires, owns, and actively manages single-tenant net-lease industrial, retail, and office properties in the United States, focusing on strategically essential and mission-critical properties with predominantly investment-grade tenants. As of its most recent filings, the company's portfolio comprised 43 properties that occupied 4.5 million square feet of aggregate leasable area. Prior to its public listing in 2022, the company Modiv was one of the largest non-listed REITs to raise funds entirely via crowdfunding and the first real estate crowdfunding platform to be entirely investor-owned. The company generated \$46.9 million in revenues last year and is based in Costa Mesa, California.

On November 6th, 2024, Modiv raised its dividend by 1.8% to a monthly rate of \$0.0975. This implies an annualized rate of \$1.17, which we have utilized in our estimates. However, this rate starts with January's dividend. The two remaining payouts for this year will be at the previous monthly rate of \$0.0958.

On the same day, Modiv reported its Q3 results for the period ending September 30th, 2024. For the quarter, rental income came in at \$11.6 million, down 7.3% year-over-year. This was mainly due to the elimination of some non-NNN tenant reimbursements related to the August 2023 portfolio disposition of 13 properties. Management fee income was stable at nearly \$66 million. Thus, total income reached nearly \$11.7 million, down 7.2% from \$12.6 million last year.

AFFO was \$3.7 million, or \$0.34 per diluted share, in line with AFFO of \$3.7 million, or \$0.33 per diluted share, in the prior year period. For FY2024, we expect AFFO per share to be close to \$1.50 based on the company's current leasing profile. The year-over-year decline is due to assuming a lack of any extraordinary factors that could boost results, like 2022's termination fees that were collected in 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO/shr	---	---	---	---	---	\$1.56	\$1.19	\$1.52	\$2.22	\$1.94	\$1.50	\$1.50
DPS	---	---	---	\$0.37	\$0.70	\$0.70	\$1.46	\$1.08	\$1.25	\$2.26	\$1.17	\$1.17
Shares¹	---	---	0.1	2.0	3.7	5.0	8.0	7.5	7.5	7.6	11.0	14.0

Modiv's financials have a very short history, so it's rather hard to assess whether the company's mass-acquisition growth strategy has been fruitful. Management has been primarily focused on acquiring industrial properties, but they have stated they may also target other types, including retail properties, data centers, and storage properties. For instance, in 2022, the company acquired four industrial properties and one retail property. Modiv's strategy is to keep on acquiring more properties, which it hopes will be accretive to AFFO per share over time.

That said, we believe this is going to be a tough journey, as financing has become very expensive for the company. Its hefty dividend, which is distributed on a monthly basis, deters the issuance of common stock due to its hefty yield,

¹ Share count is in millions.

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which would likely exceed the ROI from acquired assets. Issuing debt is also going to be very expensive for the company, as creditors should have elevated demands from such a small player in the industry in a rising-rates environment.

The company's 8.0%-yielding preferred equity, which accounts for about 14% of Modiv's share capital, also sounds like an expensive route. Thus, we expect stable results in the medium-term until we get a clearer picture of Modiv's prospects. The rate of monthly dividends currently stands at \$0.0975. We don't believe the company can afford any dividend increases moving forward.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	---	---	---	---	---	---	---	---	6.8	5.9	10.8	10.0
Avg. Yld.	---	---	---	---	---	---	---	---	8.3%	19.7%	7.2%	7.8%

Modiv is currently valued at about 10.8x our projected earnings for FY2024. Given the risks attached to the possible lack of growth prospects moving forward, we believe that the stock is slightly overvalued. The 7.2% yield is notable, as the market requires a high tangible return from Modiv given its risk profile, nonetheless. At the end of 2023, the company claimed its Net Asset Value (NAV) per share stood at \$27.72, which implies shares are trading at half their book value. However, we believe this is due to the balance sheet reflecting the prices paid by the company prior to becoming public to acquire these assets, for which we believe it overpaid.

Safety, Quality, Competitive Advantage, & Recession Resiliency

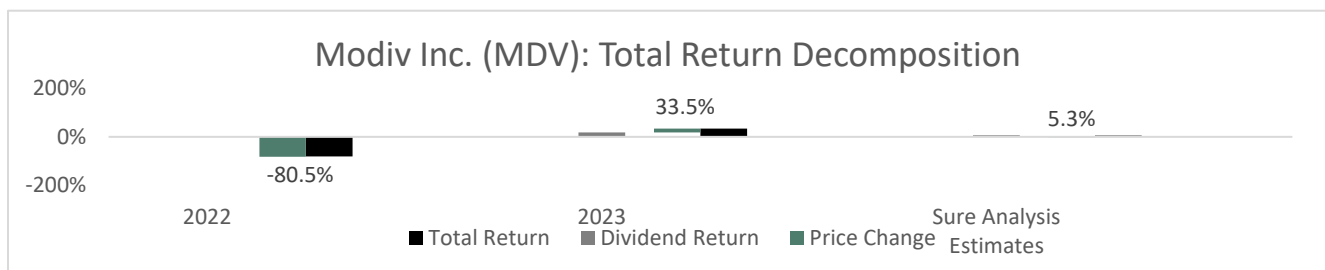
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	45%	123%	71%	56%	116%	78%	78%

While Modiv's monthly dividend appears covered, we wouldn't trust it just yet. The company has to put a lengthier track record of robust AFFO/share generation to do so, and the current market environment will certainly test this. Some notable qualities include a lengthy weighted average lease term of 13.8 years, which should provide predictable cash flow. Still, due to its length, it may be a curse if expenses rise faster than the company's negotiated leasing rates during this period, which could result in a decline in profits. Regardless, Modiv seems to have a quality tenant base as well, including Costco, 3M, and Northrop Grumman. We don't identify any particular competitive advantages. While the company's properties are mission-critical for many of its tenants, we don't exclude the possibility of a recession hurting Modiv's results. Finally, we highlight that shares have limited liquidity. On average, just 37,000 shares are traded daily.

Final Thoughts & Recommendation

Modiv is one of the newest monthly dividend stocks to enter the public markets and our coverage universe. Its track record is short, so we cannot make something meaningful out of it. However, we believe that the company will have a hard time pursuing its growth strategy in the current market environment without risking over-diluting shareholders. Based on our assumptions, which includes no growth on a per-share, and a valuation headwind, the stock could produce annualized returns of 5.3%. Future returns are projected to be powered largely by the dividend. We rate Modiv 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	-	-	-	-	-	25	39	36	46	47
Gross Profit	-	-	-	-	-	20	32	30	37	42
Gross Margin	-	-	-	-	-	80.1%	81.9%	81.5%	80.7%	89.4%
SG&A Exp.	-	-	-	-	-	7	11	13	10	18
D&A Exp.	-	-	-	-	-	9	16	14	-	15
Operating Profit	-	-	-	-	-	3	3	2	12	8.4
Operating Margin	-	-	-	-	-	10.9%	8.9%	4.5%	26.3%	17.9%
Net Profit	-	-	-	-	-	(4)	(49)	(0)	(3)	(6.6)
Net Margin	-	-	-	-	-	-18.0%	-127%	-1.2%	-7.1%	-14.0%
Free Cash Flow	-	-	-	-	-	5	5	10	-	17

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	-	-	-	-	-	491	407	428	456	531
Cash & Equivalents	-	-	-	-	-	7	8	56	9	3.1
Accounts Receivable	-	-	-	-	-	6	8	8	9	12.8
Inventories	-	-	-	-	-	-	26	32	5	11.7
Goodwill & Int. Ass.	-	-	-	-	-	60	23	18	2	1.3
Total Liabilities	-	-	-	-	-	237	217	206	215	306
Accounts Payable	-	-	-	-	-	1	1	2	9	0.6
Long-Term Debt	-	-	-	-	-	206	192	182	195	280
Shareholder's Equity	-	-	-	-	-	204	140	172	160	144
D/E Ratio	-	-	-	-	-	1.01	1.37	1.06	1.22	1.94

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-	-	-	-	-	-	-10.9%	-0.1%	-0.7%	-1.3%
Return on Equity	-	-	-	-	-	-	-28.6%	-0.3%	-2.0%	-2.8%
ROIC	-	-	-	-	-	-	-11.7%	-0.1%	-0.8%	-1.4%
Shares Out.	-	-	-	-	-	5.0	8.0	7.5	7.5	7.6
Revenue/Share	-	-	-	-	-	3.25	5.12	4.80	6.17	6.21
FCF/Share	-	-	-	-	-	0.63	0.66	1.26	-	2.19

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

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