



Company Analysis | Agree Realty Corp.

Aug 2024

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Company Overview

1. Company Profile

Agree Realty Corporation (ADC) operates as a publicly traded real estate investment trust (REIT) focusing on the acquisition and development of properties net leased to industry-leading, omni-channel retail tenants. The company emphasizes tenants with investment-grade credit profiles, ensuring stability and lower risk in their rental income streams.

Symbol	ADC	Sector	REAL ESTATE & CONSTRUCTION
Asset Type	Common Stock	Industry	REAL ESTATE INVESTMENT TRUSTS
Exchange	NYSE	Address	BLOOMFIELD HILLS, MI, US
Currency	USD	Fiscal Year End	December
Country	USA	Latest Quarter	2024.6.30

Company Overview

Agree Realty Corporation (ADC) Stock

ADC Market Price \$72.66, YTD 12.0% (Reference Date: Aug 06, 2024)

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TradingView

Business Analysis

*References: JP Morgan, RBC Capital Markets, Truist

1. Revenue Sources

ADC's revenue sources are primarily derived from rental income generated from its diverse portfolio of net-leased properties. The company reports high occupancy rates and long-term leases with investment-grade tenants, which contribute to a stable revenue base.

- ADC's portfolio consisted of 2,202 properties across 49 states (2Q24)
- Weighted average lease term of **8.1 years** with 68.4% of annualized base rents from investment-grade tenants (2Q24)
- Portfolio lease rate stands at **99.8%**, up 20bps sequentially (2Q24)

Geographical distribution of rental income as a % of total ABR:

- Texas: 7.1% / Florida: 5.6% / Illinois: 5.6% / North Carolina: 5.4% / Ohio: 5.4% / Michigan: 5.2% / Pennsylvania: 4.6%
/ Georgia & New Jersey: 4.1%.

2. Major Customers and Partners

Top 10 tenants by percentage of annualized base rent (ABR):

1. Walmart (5.8%)
2. Tractor Supply (4.9%)
3. Dollar General (4.7%)
4. Best Buy (3.5%)
5. CVS Pharmacy (3.3%)
6. Dollar Tree (3.1%)
7. TJX (3.1%)
8. Kroger (2.9%)
9. O'Reilly Auto Parts (2.9%)
10. Hobby Lobby (2.8%)

3. Major Competitors

ADC operates in the competitive **triple-net lease REIT** sector, with key competitors including:

- Realty Income (O), National Retail Properties (NNN), Essential Properties Realty Trust (EPRT).

Latest Movements

**References: Google News*

Positive Factors:

- **Analyst Upgrades:** Multiple analyst upgrades have positively influenced stock performance.
- **Strong Trading Volume:** Increased trading volume signifies investor confidence.
- **52-Week Highs:** Stock achieving new highs reflects strong market sentiment.
- **Significant Investments:** Institutional investments indicate long-term confidence in the company's prospects.

Negative Factors

- **Share Sales:** Sales of shares by large institutional investors could signal caution.
- **Valuation Concerns:** High stock prices may lead to concerns about overvaluation.

Key Articles

- "Agree Realty (NYSE) Sees Strong Trading Volume Following Analyst Upgrade" (Defense World, Aug 6, 2024 [Read More](#))
- "Agree Realty (NYSE) Reaches New 52-Week High on Analyst Upgrade" (Defense World, Aug 6, 2024 [Read More](#))

- "Why Agree Realty Stock Jumped Over 11% in July" (The Motley Fool, Aug 5, 2024 [Read More](#))
- "Agree Realty stock hits 52-week high at \$72.03 amid robust growth" (Investing.com, Aug 5, 2024 [Read More](#))
- "Agree Realty (NYSE) PT Raised to \$77.00 at Truist Financial" (Defense World, Aug 5, 2024 [Read More](#))
- "California State Teachers Retirement System Sells 1,811 Shares of Agree Realty Co. (NYSE)" (Defense World, Aug 5, 2024 [Read More](#))
- "Virtu Financial LLC Invests \$599,000 in Agree Realty Co. (NYSE)" (MarketBeat, Aug 4, 2024 [Read More](#))

Key Highlights

**References: JP Morgan, RBC Capital Markets, Truist*

Upside Opportunities

Strong Acquisition Pipeline

- ADC has a robust acquisition strategy, having acquired 47 net lease assets in 2Q24 alone, with a weighted average cap rate of 7.7% and an average lease term of over nine years. The company's proactive approach in identifying and securing high-quality properties is expected to continue driving growth.

Diversified Tenant Base

- The company's diverse tenant base, which includes leading retail chains like Walmart and CVS, ensures a stable income stream. This diversity reduces the risk associated with any single tenant or sector.

Market Expansion and Geographic Diversity

- ADC's properties are spread across 49 states, with significant investments in high-growth states like Texas and Florida. This geographical diversity allows the company to tap into various regional markets and mitigate risks associated with local economic downturns.

Investment in Ground Leases

- ADC's ground lease portfolio, which accounts for 11.3% of ABR, is a significant value driver. Ground leases typically offer long-term, stable income with lower risk, and the market may not fully recognize this value yet.

Credit Rating Improvements:

- ADC's solid financial performance and asset base have positioned the company for potential credit rating upgrades. S&P already revised ADC's outlook to Positive, and further upgrades could lower borrowing costs and enhance profitability.

Strategic Capital Deployment:

- ADC's strong liquidity position, with \$1.7 billion in total liquidity, provides ample financial flexibility for opportunistic acquisitions and developments. This allows the company to capitalize on favorable market conditions and distressed asset sales.

Downside Risks

Economic Sensitivity

- As a REIT heavily invested in retail properties, ADC is sensitive to economic cycles. Economic downturns can reduce consumer spending, impacting retail tenants' profitability and, subsequently, their ability to pay rent.

Interest Rate Fluctuations

- REITs are generally sensitive to interest rate changes. Rising interest rates can increase borrowing costs, reduce property values, and make dividend yields less attractive compared to fixed-income securities.

Tenant Credit Risk

- Despite a focus on investment-grade tenants, there is still a risk associated with tenant defaults or bankruptcies, which can lead to vacancies and reduced rental income.

Sector-Specific Risks

- The retail sector is undergoing significant changes, with increasing competition from e-commerce. ADC must continually adapt to these changes to ensure its properties remain attractive and relevant.

Inflation Risk

- High inflation can erode rental income value if lease agreements do not have adequate rent escalations tied to inflation indices.

Summary

- Agree Realty Corporation represents a stable investment opportunity in the REIT sector due to its diversified portfolio, strong tenant base, and measured growth initiatives.
- The company's strategy of acquiring and developing properties leased to investment-grade tenants contributes to a reliable income stream, while its geographic diversification helps mitigate localized economic risks. ADC's acquisition pipeline and financial flexibility suggest potential for future growth.
- However, investors should be mindful of the inherent risks associated with economic cycles, interest rate fluctuations, and sector-specific challenges. It is also important to be cautious as the current stock price is above the consensus target price.

Fundamentals

FINANCIAL PERFORMANCE

*References: Alpha Vantage

Key Metrics

Market Capitalization	\$7,176,080,000
EBITDA	\$450,128,000
PERatio	39.70
PEGRatio	(28.74)
Book Value	49.67
Dividend Per Share	2.96
Dividend Yield	0.042
EPS	1.79
Revenue Per Share TTM	5.86

Income Statement

Profit Margin	0.32
Operating Margin TTM	0.49
Return On Assets TTM	0.02
Return On Equity TTM	0.04
Revenue TTM	\$583,006,000
Gross Profit TTM	\$377,533,000
Diluted EPS TTM	1.79
Quarterly Earnings Growth YOY	0.244
Quarterly Revenue Growth YOY	0.175

Valuation

Analyst Target Price	\$68.25
Trailing PE	39.70
Forward PE	39.68
Price To Sales Ratio TTM	12.31
Price To Book Ratio	1.43
EV To Revenue	17.13
EV To EBITDA	19.60

Trading

Beta	0.59
52 Week High	72.22
52 Week Low	50.76
50 Day Moving Average	63.43
200 Day Moving Average	59.69
Shares Outstanding	100,625,000
Dividend Date	2024.8.14

EARNINGS & GROWTH

*References: Seeking Alpha, Alpha Vantage, Investopedia

Recent Earnings

Quartely Earnings	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
Reported Date	2024.7.23	2024.4.23	2024.2.13	2023.10.24	2023.8.1	2023.5.4
Reported EPS	0.52	0.47	0.41	0.37	0.42	0.44
Estimated EPS	0.44	0.46	0.46	0.42	0.43	0.44
Surprise	0.08	0.01	(0.05)	(0.05)	(0.01)	0.00
Surprise Percentage	18.18%	2.17%	-10.87%	-11.90%	-2.33%	0.00%

* GAAP

Recent FFO Earnings

ADC's recent performance demonstrates stability, with a 1Q24 FFO of \$1.03, slightly above expectations. Revenue growth remains strong, reaching \$152.58M in March 2024, representing a 17.46% YoY increase, reflecting solid operational execution.

FFO Earnings History	FFO	Surprise	Revenue	YoY	Surprise
Mar-24	1.03	0.01	152.58M	17.46%	1.39M
Dec-23	1.01	0.00	149.45M	18.03%	1.09M
Sep-23	0.99	(0.01)	144.17M	23.71%	2.93M
Jun-23	0.99	0.00	136.81M	24.30%	1.84M

P/FFO Estimate & FFO Growth Rate

ADC's future growth projections indicate moderate expansion, with FFO growth around 3.96% annually. The P/FFO ratios are expected to decrease from 17.40 in 2024 to 15.37 in 2027, suggesting cautious optimism for sustained performance.

Consensus	P/FFO	FFO Growth Rate
2023 Actual	18.08	
2024 Estimated	17.40	3.96%
2025 Estimated	16.73	3.97%
2026 Estimated	16.14	3.64%
2027 Estimated	15.37	5.06%

FFO(Funds From Operations)

Real estate companies use FFO as a measurement of operating performance. The FFO-per-share ratio should be used in lieu of earnings per share (EPS) when evaluating REITs and other similar investment trusts.

$$FFO = (NI + D + A + PSL) - PSG - II$$

NI=Net income, D=Depreciation, A=Amortization, II=Interest Income
PSL=Property Sales Losses, PSG=Property Sales Gains

PEERS COMPARISON

*References: Alpha Vantage

Agree Realty Corp. (ADC) demonstrates above-average growth potential compared to its peers, particularly in terms of Earnings and Revenue Growth. However, in terms of company valuation metrics such as Market Cap and PE Ratio, ADC is relatively higher than its peer companies.

- **Dividend Yield:** Gaming & Leisure Properties (GLPI) offers the highest dividend yield at 6.31%, followed by Realty Income Corp. (O) at 5.33%, National Retail Properties (NNN) at 5.02%, and Agree Realty Corp. (ADC) at 4.22%.
- **PE Ratio:** Gaming & Leisure Properties (GLPI) has the lowest PE ratio at 16.66, followed by National Retail Properties (NNN) at 20.83, Agree Realty Corp. (ADC) at 39.7, and Realty Income Corp. (O) at 54.8.
- **Quarterly Revenue Growth YOY:** Realty Income Corp. (O) shows the highest growth at 33.3%, followed by Agree Realty Corp. (ADC) at 17.5%, National Retail Properties (NNN) at 7.0%, and Gaming & Leisure Properties (GLPI) at 6.7%.

지표	Agree Realty Corp. (ADC)	National Retail Properties (NNN)	Gaming & Leisure Properties (GLPI)	Realty Income Corp. (O)
Main Sector	Retail	Retail	THL	Retail
Market Capitalization	7,176.08M	8,492.44M	13,211.93M	51,532.41M
EBITDA	450.13M	779.19M	1,388.14M	3,907.81M
PEG Ratio	(28.74)	4.92	8.08	6.02
Dividend Per Share	2.96	2.26	2.98	3.07
Dividend Yield	4.22%	5.02%	6.31%	5.33%
Profit Margin	32.1%	47.4%	52.4%	17.7%
Operating Margin TTM	49.0%	62.6%	77.1%	43.5%
Quarterly Earnings Growth YOY	24.4%	7.4%	29.5%	-54.3%
Quarterly Revenue Growth YOY	17.5%	7.0%	6.7%	33.3%
Trailing PE	39.70	20.83	16.66	54.80
Forward PE	39.68	22.99	14.06	39.53
Price To Book Ratio	1.43	2.03	3.20	1.33

* GAAP

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