



STOCKTRADES PREMIUM COMPANY SUMMARY

**AUTOMOTIVE PROPERTIES
REIT**

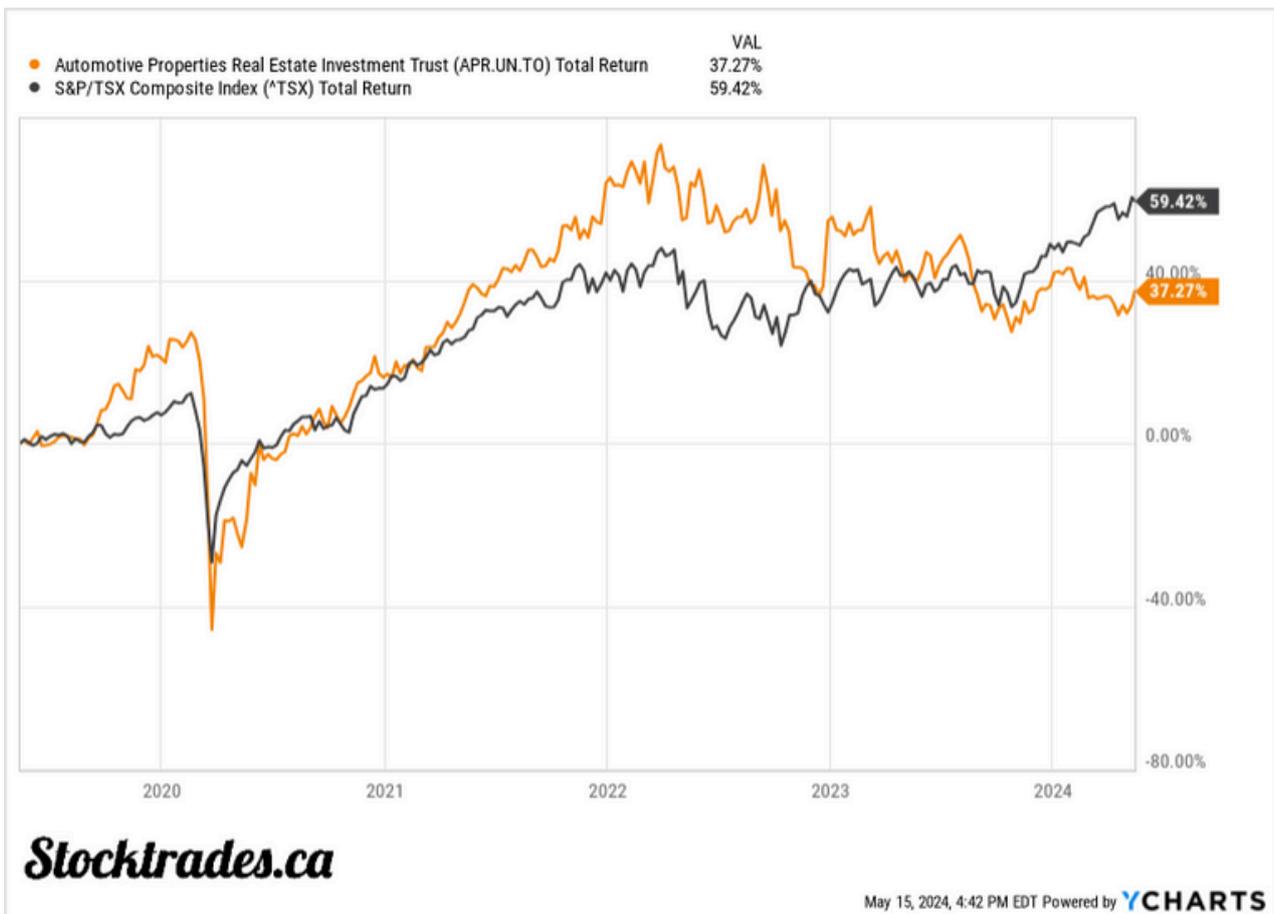
APR.UN.TO

UPDATED MAY 15, 2024

NOTE: DAN IS LONG APR.UN

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Automotive Properties Real Estate Investment Trust is an unincorporated open-ended real estate investment trust focused on investing in high-quality Canadian automotive properties tenanted by automotive dealership groups and automotive brands ranging from mass-market to ultra-luxury. The company holds a portfolio of best-in-class properties located in strategic Canadian urban markets across Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, and Quebec. The primary objectives of the REIT are to provide Unitholders with stable, sustainable and growing cash distributions, and to enhance and expand the REIT's asset portfolio in order to maximize Unitholder value.

OUR REIT SCORE: 3.2/5

RANK: 6th of 38 tracked REITs

Sector: Real Estate

Stock Type: Income/Growth

Industry: Specialty - Automotive

Our Risk Rating*: Moderate

Current Price: \$10.23

1 Year Price Target: \$11.90

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

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PROS

- Below average debt ratios
- Strong coverage ratios
- Attractively valued
- High, single-digit growth expected
- Eight consecutive years of revenue growth
- High starting yield of +7%

CONS

- Little dividend growth over the past few years
- High reliance on one client
- Prone to auto industry slowdown
- The longevity of dealerships overall is a hotly debated topic

OVERALL THESIS

Automotive Properties will continue to drive market-beating growth in a highly fragmented industry. Its position as the only automobile property consolidator in the country, and its ability to get first dibs on the purchase of any properties from Dilawri Group automatically gives the company a market advantage.

The company's triple net leases, where the tenant is required to perform all maintenance, plus its 10+ year average lease length will keep expenses low and produce reliable cash flow. If the company can keep its pace of mid-single-digit growth and trade at the same valuation, this would represent a double-digit annual upside over the next half decade, while providing a strong ~8% distribution. Current hesitancy with investments in the automobile sector and the overall selloff of small caps is providing an attractive entry point for this small-cap growth REIT. Although it is a higher-risk REIT play, this option can still be appealing to both total return & income investors.

POTENTIAL RISKS

Although the company is reducing its exposure, Dilawri Group accounts for 60% of the company's portfolio. The risk of the client leaving is likely low, however, an event of this kind would result in a material impact to the business. Also worth noting Dilawri is also the largest unitholder with a ~30% retained interest.

Beta	0.90
Alpha	2.07
Our Risk Rating	Mod*
Max Drawdown	57.7%

The REIT had a high payout ratio north of 90%, but it has since improved the ratio, which now accounts for 83% of adjusted funds from operations over the last twelve months. Although we do not feel the distribution is at risk of being cut or suspended, tighter payout ratios give less room for error.

One of the main benefits of automobile dealers selling their properties to APR is that they can expand with the capital received. If the automobile industry experiences a slowdown, this could impact property additions as dealerships may be reluctant to sell as there are fewer growth opportunities.

With a market cap of only \$400M, this is a small-cap growth REIT. As such, we can expect it to be more volatile than a blue-chip such as Canadian Apartments or Granite REIT.

VALUATION

	TTM	5 Year Average	Industry Average
P/FFO	8.44	N/A	10.80
FFO/Interest	1.96	N/A	194
D/Equity	0.98	N/A	1.22
D/EBITDA	6.84	N/A	N/A
D/Assets	0.45	N/A	0.46

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At the time of this updated report, Automotive Properties is trading at only 8.44 times FFO (Funds From Operations). Although there are plenty of REITs in Canada trading at less than this, APR is one of the best capitalized out of the bunch, and one the fastest-growing of those in this range.

The key valuation metrics to consider moving forward are those related to debt. Although none of the numbers are concerning at this point and are more of an industry-wide trend rather than just Automotive Properties, debt ratios have been increasing over the last while. The company's FFO-to-interest coverage ratio dipped from 2.5 to 1.96, its debt-to-equity increased to nearly one, and its debt-to-EBITDA rose to 6.87.

Rising interest rates are no doubt increasing these debt-related valuation metrics, and while REITs have rebounded in recent weeks, we still need clarity on the rate situation. Given this, it is likely the reason Automotive Properties trades at a double-digit discount to its NAV (-22%) and discounted valuations on a price-to-FFO basis.

Prior to the significant hike in policy rates, and even before the pandemic, Automotive Properties was able to consistently grow in the mid-to-high single-digits. In this new high-rate environment, the company is growing only at a low single-digit pace, and the market is pricing this type of growth at this time.

Overall, we think APR remains attractively valued as negative sentiment towards the industry persists.

COMPETITOR ANALYSIS

Because Automotive Properties is such a specialty REIT, there really is no competitive analysis. We could compare it to other REITs here in Canada, but the comparisons really wouldn't be accurate, as this is the only REIT in the country that buys dealerships from the dealers themselves and then turns around and leases them back.

Investors may mistakenly compare this company to something like AutoCanada Inc (TSE:ACQ), but it is very important to understand that these are two very different businesses. AutoCanada sells new and used vehicles, APR does not. In fact, AutoCanada is one of APR's largest clients.

DISTRIBUTION ANALYSIS

Annual Distribution	FFO Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
\$0.804	83.8%	0	0

Automotive Properties' payout ratio in terms of adjusted funds from operations is likely to make REIT investors a little uneasy. While the payout ratio may appear to be high, it is trending downward.

The AFFO and FFO payout ratios for Fiscal 2023 came in at 87.6% and 83.8% respectively. This is notably lower than the 89.5% and 85.6% it posted in Fiscal 2022. This is good news, and if the company can continue to drive strong FFO growth, ratios will continue to trend downwards and start to look even more attractive.

That being said, don't expect much, if any, distribution growth from APR. It does yield north of 7% at the time of update, but this is a company that utilizes excess capital to fund acquisitions, not distribution growth.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$0.83	\$0.86	N/A
Revenue	\$94.88M	\$100.02M	N/A
EBITDA	\$74.47M	\$79.58M	N/A
EBITDA Margin	78.67%	79.56%	N/A

Automotive Properties reported a solid quarter to kick off Fiscal 2024. The REIT generated Adjusted Funds From Operations of \$0.234, a 2.1% increase from Q1 2023 and rental revenue of \$23.4M was 2.3% higher year over year.

Despite a difficult operating environment in terms of automotive dealerships and interest rates, it maintains relatively strong operations.

Net operating income, which is the income primarily derived from its rental operations, increased by 2.5%. The company's debt to gross book value, which compares its debt to its real estate assets, sat at 44.6%, which is a 0.6% decline on a year-over-year basis.

When we look to payout ratios, they continue to improve. The company is currently paying out 83.4% of funds from operations towards the distribution, which is relatively flat on the year. However, the adjusted funds from operations payout ratio witnessed a 1.9% decline, going from 87.8% to 85.9%.

The company issued its outlook, which was relatively cautious. It states that elevated interest rates have the potential to significantly impact consumer confidence, which may result in lower demand in the automobile space.

However, it mentioned that over the long term, the automobile sector is highly fragmented, and it should continue to be able to make strong acquisitions to grow the fund and increase the distribution.

Overall, it was a nice rebound quarter after a somewhat weak close to Fiscal 2023.



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