Realty Income (O)

Updated April 12th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	11.4%	**Quality Percentile:**	N/A
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.2%	**Momentum Percentile:**	N/A
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Total Return Percentile:**	N/A
Dividend Yield:	5.1%	**5 Year Price Target**	$69	**Valuation Percentile:**	N/A

Overview & Current Events

Realty Income is a retail real estate focused REIT that has become famous for its successful dividend growth history and the fact that it pays dividends *monthly*. Realty Income owns more than 4,000 properties and is valued at $15 billion. Realty Income owns retail properties that are not part of a wider retail development (i.e. a mall), but rather standalone properties. This means that the properties are viable for many different tenants, and are used for many different purposes, including government services, healthcare services, entertainment, etc.

The REIT earned $0.76 per share during the most recent quarter (adjusted funds from operations per share, the metric usually used for valuing REITs), based on revenues of $310 million (up 8% year-over-year).

For FY 2018 Realty Income is forecasting AFFO per share of $3.14 to $3.20, which would mean an increase of 4% over 2017's AFFO of $3.05 per share.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
AFFO	$1.83	$1.86	$1.86	$2.01	$2.06	$2.41	$2.57	$2.74	$2.88	$3.05	***$3.17***	***$4.08***
DPS	$1.66	$1.71	$1.72	$1.74	$1.77	$2.15	$2.19	$2.27	$2.39	$2.53	***$2.65***	***$3.33***

Realty Income is not generating extremely high growth rates, but the growth the REIT is experiencing is steady. AFFO per share grew by 5.6% annually over the last decade, which is a solid-if-unspectacular growth rate. Realty Income generates its growth through rising rents at existing locations as well as through the acquisitions of new properties.

The REIT plans to invest $1 to $1.5 billion into new properties during 2018, which should help drive profits going forward. Realty Income's properties are relatively Amazon-proof: The REIT owns standalone properties that can be used as cinemas, fitness centers, pharmacies, etc. Contrast this with mall REITs, which increasingly have trouble finding tenants for their properties. Realty Income's properties are in demand and will likely remain so.

The occupancy rates are high (at more than 98%) and the REIT has been growing its same-property rents continuously. Due to the fact that tenants pay a fixed rent, Realty Income's business is not cyclical at all. This is reflected by the fact that Realty Income's AFFO continued to grow through the last financial crisis.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/AFFO	12.6	14.0	18.3	17.4	19.4	15.4	18.7	19.0	19.8	18.7	***16.1***	***17.0***
Avg. Yld.	6.9%	7.6%	5.4%	5.1%	4.5%	5.0%	5.0%	4.6%	3.9%	4.4%	***5.1%***	***5.0%***

Realty Income's valuation has been growing consistently from 2008 onwards, but along with most other REITs and income stocks Realty Income's shares got less expensive during 2017. Right now shares trade at the lowest valuation since 2013, which means that there is some upside potential due to possible multiple expansion going forward.

Realty Income is a beloved income investment because of its high yield, income growth, and monthly payments. At a 5.1% yield an investment in Realty Income offers roughly three times as much income as an investment into the broad market (which has a 1.8% dividend yield).

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	10.7%	10.9%	9.2%	9.0%	8.5%	7.5%	8.0%	8.2%	7.9%	8.2%	***8.0%***	***8.0%***
Debt/A	48.2%	49.1%	47.7%	49.9%	55.6%	45.8%	49.0%	44.8%	48.6%	47.6%	***48.0%***	***47..0%***
Int. Cov.	2.2	2.4	2.3	2.3	2.2	2.0	2.3	2.3	2.5	2.4	***2.5***	***2.5***
Payout	90.7%	91.9%	92.5%	86.6%	85.9%	89.2%	85.2%	82.8%	83.0%	82.9%	***83.6%***	***81.7%***
Std. Dev.	77.0%	56.9%	25.8%	25.7%	13.7%	22.0%	15.4%	20.2%	22.9%	16.5%	***18.0%***	***20.0%***

In the above table we see typical REIT results: Realty Income generates relatively low gross profits relative to the assets the REIT owns, but on the other hand there are no significant operating expenses, which means that a big portion of gross profits turns up as cash that can be utilized.

Roughly half of Realty Income's asset base is financed via debt. The interest coverage ratio looks quite low, but that is due to the fact that the REIT's earnings are quite low due to high depreciation expenses. Cash flows cover the REIT's interest expenses by a factor that is substantially higher (the cash flow to interest expenses ratio was 4.9 during 2017).

Despite the fact that its dividend has been raised multiple times a year Realty Income has managed to lower its payout ratio during the last decade. The payout ratio is high relative to most income stocks, but in line with the payout ratio of many other REITs.

Relative to mall REITs, which are more threatened by Amazon, Realty Income looks very stable. The business is relatively recession-proof (AFFO per share grew during the last financial crisis), and the stock is not overly volatile. With its high occupancy rates and high-grade property portfolio Realty Income is well positioned relative to most other retail REITs.

Final Thoughts & Recommendation

Realty Income is famous among retail investors, and rightfully so. The REIT has a great track record, continues to grow its dividend and its funds from operations, and has a solid outlook. The valuation has come down a lot in 2017 and 2018 and the REIT's shares are not looking expensive right here. Shares should provide attractive total returns going forward, through a combination of share price appreciation and dividend payments.

REITs generally aren't high-growth investments, but lower-risk holdings that provide attractive income. That is what Realty Income is offering investors, therefore shares of the REIT could be the right choice for investors that want a sleep-well-at-night holding that provides a steadily rising payout and monthly income.

Total Return Breakdown by Year