W. P. Carey (WPC)

Updated May 7th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	10.5%	**Quality Percentile:**	N/A
Fair Value Price:	$68	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	N/A
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Total Return Percentile:**	N/A
Dividend Yield:	6.4%	**5 Year Price Target**	$79	**Valuation Percentile:**	

Overview & Current Events

W.P. Carey is a commercial real estate focused REIT that operates two segments: real estate ownership and investment management. W.P. Carey was founded 45 years ago, is headquartered in New York, NY, and is currently valued at a market capitalization of $7 billion. 80% of funds from operations are generated from the REIT's owned real estate, and 20% are generated through investment management (where W.P. Carey has the role of an adviser).

W.P. Carey's most recent quarterly results were announced on May 4. The REIT reported funds from operations per share of $1.28, a two percent increase over the prior year's level. The REIT also grew its net revenues by two percent and has reaffirmed guidance of $5.30-$5.50 in AFFO per share during the current year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
FFOPS	$3.09	$3.09	$3.27	$4.71	$3.76	$4.22	$4.81	$4.99	$5.12	$5.30	***$5.40***	***$6.35***
DPS	$1.96	$2.00	$2.03	$2.19	$2.44	$3.39	$3.69	$3.81	$3.90	$4.01	***$4.06***	***$4.76***

W.P. Carey generated a funds from operations per share growth rate of 6.2% annually since 2008 (the growth rate has slowed down over the years, though, averaging just 3.3% annually since 2014), which is quite compelling, as real estate investment trusts such as W.P. Carey usually are not high-growth businesses. W.P. Carey's growth has been relatively consistent (2011 being the sole outlier).

W.P. Carey invests additional money into new properties continuously. Since 2012 the REIT invested $9.7 billion into new assets by either purchasing REITs or by single-asset/portfolio purchases. These investments are funded by either retained cash (as the REIT does not pay out all of its earnings in the form of dividends), by issuing new equity or by issuing debt. As long as the returns on the assets W.P. Carey acquires are high enough and the valuation is low enough, issuing equity to purchase these assets is accretive. W.P. Carey can access debt markets at favorable rates that lowers the company's cost of capital, which allows for even better investment spreads.

Another factor that drives growth is that the contracts W.P. Carey and the tenants have include ongoing rent increases, which results in growing revenues even without new asset purchases. Last but not least W.P. Carey is getting more efficient with increasing scale, which leads to margins getting higher over time. All of these factors will persist going forward, which is why W.P. Carey should be able to increase its profits over the coming years.

W.P. Carey's dividend has grown by 7.6% annually since 2008, which is a highly attractive dividend growth rate, but which was partially based on payout ratio increases (this will not be possible forever, which is why the dividend growth rate will likely slow down somewhat over the coming years to be more in line with FFO growth).

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/FFO	9.4	9.1	9.5	8.7	12.4	13.4	12.9	12.7	12.2	12.4	***12.0***	***12.5***
Avg. Yld.	6.9%	7.7%	6.7%	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	***6.4%***	***6.3%***

W.P. Carey hasn't been valued at a premium valuation at any point during the last decade, which is quite surprising as the company offers both high income and compelling growth rates, which usually attracts investors. W.P. Carey converted to a REIT in 2012, the results (and valuations) from earlier years therefore are less meaningful for how shares of W.P. Carey should be valued. Since 2012 the average price to FFO multiple was slightly higher than the current valuation, which is why there is marginal valuation expansion potential.

The dividend yield is not as high as it was during the financial crisis, but at the highest level since W.P. Carey became a REIT in 2012.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	41.7%	41.4%	42.7%	51.0%	50.8%	52.8%	54.9%	59.2%	59.5%	58.6%	***58.0%***	***56.0%***
Int. Cov.	7.1	7.8	8.0	-	3.0	1.9	2.3	2.1	2.1	2.5	***2.6***	***2.7***
Payout	63.4%	64.7%	62.1%	46.5%	64.9%	80.3%	76.7%	76.4%	76.2%	75.7%	***75.2%***	***75.0%***
Std. Dev.	32.4%	41.8%	22.8%	18.8%	19.5%	25.6%	12.2%	15.3%	19.1%	10.6%	***14.0%***	***16.0%***

After the financial crisis, when assets could be purchased at bargain prices and when interest rates were low W.P. Carey grew aggressively, funding its acquisitions (at least partially) by increasing its leverage. This is why W.P. Carey's debt to assets ratio has grown from slightly above 40% to close to 60% through the last decade. Since 2015 W.P. Carey has reduced its total liabilities on an absolute basis, which shows that management is proactive and has decided that it is opportune to lower the REIT's leverage in a rising rates environment. W.P. Carey has an investment grade rating from Moody's as well as from S&P, which shows that debt levels are not an issue at all.

W.P. Carey is quite recession-proof, even during the last financial crisis its profits did not decline at all. Due to diversification across industries as well as geographically (65% US, 30% Europe, 5% other) W.P. Carey is not overly dependent on the progress of any single market either, which makes the REIT a relatively safe investment.

W.P. Carey is one of the biggest players in its field, and its focus on the sale-and-lease-back-transactions niche markets means that it is unlikely that any competitor or new market entrant will hurt the company's profits. With long-lasting contracts, very high occupancy rates (99.7% during the 2017) and considerable scale W.P. Carey is one of the most secure investments in its segment.

Final Thoughts & Recommendation

W.P. Carey offers a compelling dividend yield, but due to an inexpensive valuation and some growth potential over the coming years the total return outlook is even better than the 6.4% dividend yield investors receive right here.

W.P. Carey's business model is recession-proof, the REIT is investment-grade-rated and there are no meaningful competitive threats, which is why shares of W.P. Carey look compelling right here for risk-averse income oriented investors looking for REIT exposure.

Total Return Breakdown by Year