W. P. Carey (WPC)

Updated August 3rd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	10.5%	**Volatility Percentile:**	16.3%
Fair Value Price:	$68	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	32.7%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	1.0%	**Valuation Percentile:**	69.2%
Dividend Yield:	6.2%	**5 Year Price Target**	$80	**Total Return Percentile:**	70.6%

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 $7.1 billion. Approximately 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 reported its second quarter earnings results on August 3. The company generated adjusted funds from operations of $1.32 per share during Q2, an increase of 17% year over year. Owned real estate revenues were unchanged, but investment management revenues declined compared to Q2 2017. W.P. Carey has nevertheless increased its funds from operations per share guidance for 2018. The trust is now forecasting $5.40 to $5.50.

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	***$5.45***	***$6.41***
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, which is quite compelling. The growth rate has slowed down over the years, though, averaging just 3.3% annually since 2014. Real estate investment trusts such as W.P. Carey usually are not high-growth businesses, but W. P. Carey has generated quite consistent growth and a lot of income over the years.

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 through 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 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, which lowers the company's cost of capital. This, in turn, 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	***11.9***	***12.5***
Avg. Yld.	6.9%	7.7%	6.7%	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	***6.2%***	***6.3%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Shares of W. P. Carey are trading at roughly 12 times this year's funds from operations. This valuation is slightly lower than the median P/FFO multiple since 2012, which was the time when W. P. Carey converted to a REIT. Shares offer a relatively attractive dividend yield of 6.2% right here, which is at the top end of the range over the last couple of years.

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%	***74.4%***	***74.3%***
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, W.P. Carey grew aggressively, funding its acquisitions by increasing its leverage. Since 2015 W.P. Carey has reduced its liabilities on an absolute basis, which shows that management 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, which shows that debt levels are not an issue at all.

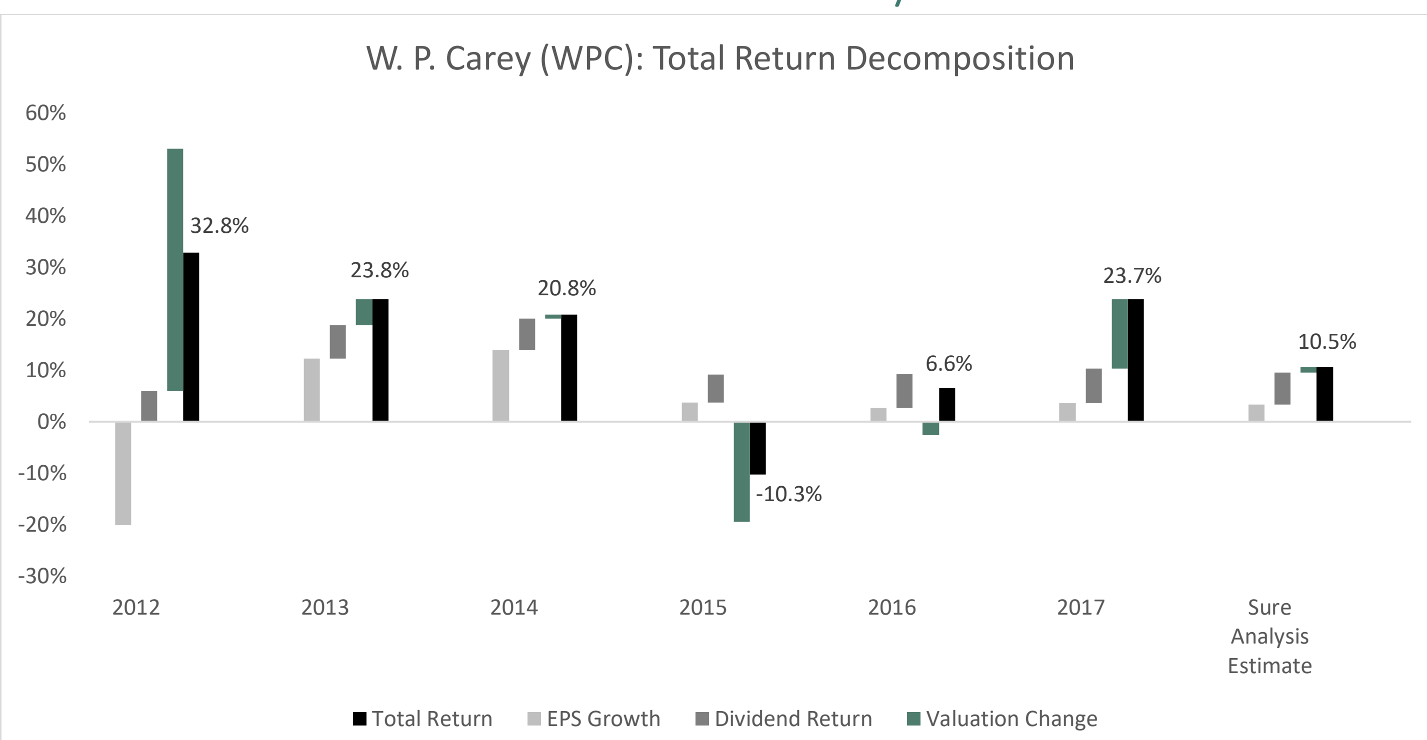
W.P. Carey is quite recession-proof, even during the last financial crisis its profits did not decline at all. Due to diversification across industries as well as geographically (65% US, 30% Europe, 5% other) W.P. Carey is not overly dependent on the progress of any single market either, which makes 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 fiscal year) and considerable scale W.P. Carey is one of the most secure investments in its segment.

Final Thoughts & Recommendation

W. P. Carey is active in an attractive and low-risk niche in the vast REIT industry. The company offers a high dividend yield, some growth and trades at an inexpensive valuation. W. P. Carey is diversified geographically and has shown that it is recession-proof. Total returns should be solid over the coming years. For income investors that are looking for a low-risk real estate investment, shares of W.P. Carey earn a buy recommendation at current prices.

Total Return Breakdown by Year



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