W. P. Carey (WPC)

Updated November 2nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	10.3%	**Volatility Percentile:**	11.7%
Fair Value Price:	$67	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	47.7%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.7%	**Growth Percentile:**	16.2%
Dividend Yield:	6.3%	**5 Year Price Target**	$79	**Valuation Percentile:**	53.7%
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Total Return Percentile:**	56.0%

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 $11 billion.

W. P. Carey has reported its third quarter earnings results on November 2. The company reported revenues of $209 million, down 0.7% year over year. The company generated FFO of $1.48 per share during the Q3, an increase of 8% year over year. W.P. Carey's guidance for this year's AFFO-per-share has been changed to $5.34-$5.44, reflecting closing costs for the merger with CPA:17. With have updated our 2018 funds from operations estimate accordingly.

This stock-for-stock merger with CPA:17 (one of its managed funds) was completed on October 31. The impact should be visible from the next earnings report onwards. Separately, W.P. Carey has increased its dividend to $1.025 in Q3, an increase of 2% versus Q3 2017. The CPA:17 takeover increases W.P. Carey's number of properties from 890 to 1160, and at the same time the takeover increases the weighted average lease term of the REIT. The takeover of CPA:17 also provides more diversification across tenants, and increases the ratio of properties with fixed rental increases. The takeover improves many of the REIT's ratios, and will be accretive to FFO growth from 2019 according to management.

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	***$5.39***	***$6.34***
DPS	$1.96	$2.00	$2.03	$2.19	$2.44	$3.39	$3.69	$3.81	$3.90	$4.01	***$4.08***	***$4.76***
Shares	40	40	41	40	69	68	104	104	107	108	***108***	***170***

W.P. Carey generated an FFO-per-share growth rate of 6.2% annually since 2008, which is solid for a REIT. 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, thus the decline in its growth rate is not surprising.

W.P. Carey invests additional money into new properties continuously. Since 2012 the REIT invested $9.7 billion (excluding CPA:17) into new assets by either purchasing REITs or through single-asset/portfolio purchases. W.P. Carey can access debt markets at favorable rates, which lowers the company's cost of capital, which, in turn, allows for improved 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. 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, although the inclusion of CPA:17 comes with some additional one-time costs. The takeover should be accretive in the long run, though.

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	***12.1***	***12.5***
Avg. Yld.	6.9%	7.7%	6.7%	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	***6.3%***	***6.2%***

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W.P. Carey is valued at just above 12 times this year's funds from operations. This valuation is slightly lower than the REIT's historic valuation, and slightly lower than our fair value estimate. Multiple expansion will not be a major factor going forward. With that said, investors get a quite high dividend yield of 6.3% from W.P. Carey at the current price.

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.

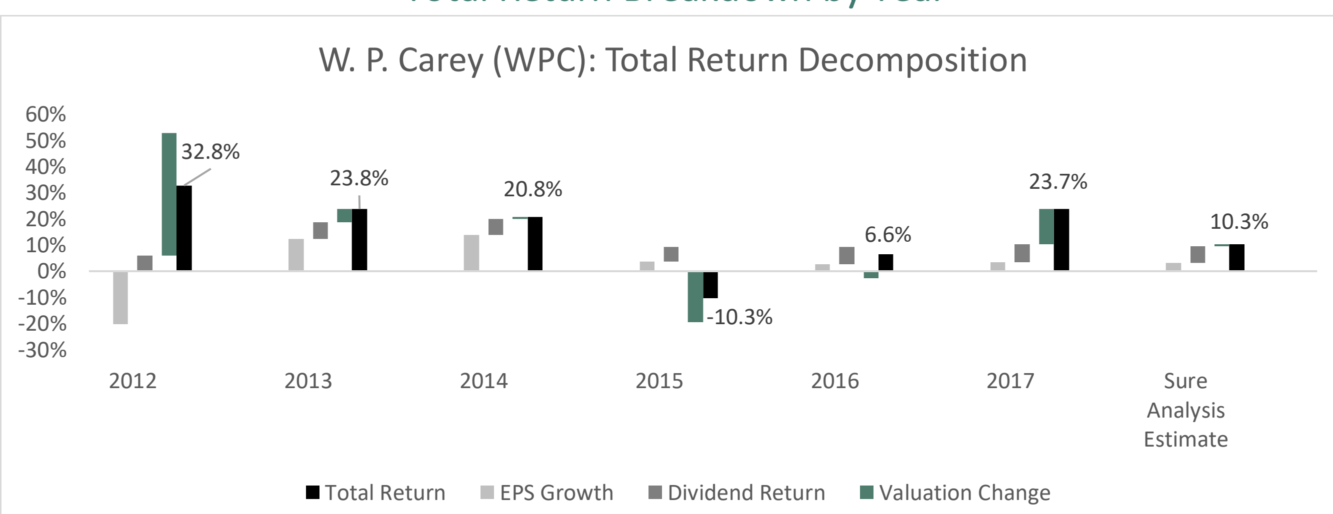
W.P. Carey is quite recession-proof, even during the last financial crisis its profits did not decline at all. Due to diversification across industries as well as geographically (65% US, 30% Europe, 5% other) W.P. Carey is not overly dependent on the progress of any single market either, which makes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

W.P. Carey is one of the biggest players in its industry, 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 going forward. With long-lasting contracts, very high occupancy rates (98.7% at the end of the third quarter), considerable scale, and an investment grade rating, W.P. Carey is one of the most secure investments in its segment.

Final Thoughts & Recommendation

W.P. Carey has a history of growing successfully through continually investing into new assets. The takeover of CPA:17 will impact the company tremendously and should be accretive in the coming years. Investors get a relatively high and well-covered dividend from W.P. Carey, which makes the REIT a suitable income investment. Total returns will likely be compelling over the coming years, and due to the fact that shares trade slightly below fair value we rate them a buy at the current price. The total returns that W.P. Carey promises look highly attractive for such a low-risk income stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	235	232	261	310	352	490	908	938	942	848
Gross Profit	220	218	184	236	224	378	688	785	773	714
Gross Margin	93.7%	93.8%	70.8%	76.1%	63.5%	77.1%	75.8%	83.6%	82.1%	84.2%
SG&A Exp.	104	111	73	94	95	104	123	125	100	90
D&A Exp.	27	24	24	30	55	131	248	317	283	316
Operating Profit	93	84	93	121	85	152	329	387	391	371
Operating Margin	39.7%	36.2%	35.6%	39.2%	24.0%	31.0%	36.2%	41.3%	41.5%	43.7%
Net Profit	78	69	75	141	62	99	240	172	268	277
Net Margin	33.3%	29.7%	28.9%	45.5%	17.6%	20.3%	26.4%	18.4%	28.4%	32.7%
Free Cash Flow	49	-9	81	67	74	194	375	500	532	501
Income Tax	24	23	26	37	7	1	18	38	3	3

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1111	1093	1172	1463	4609	4679	8648	8742	8454	8231
Cash & Equivalents	17	18	65	29	124	118	199	157	155	162
Goodwill & Int. Ass.	93	85	88	126	1056	1064	2209	2060	636	644
Total Liabilities	463	453	499	746	2352	2476	4758	5181	5029	4820
Accounts Payable	62	52	41	82	159	166	294	342	267	263
Long-Term Debt	327	326	397	589	1968	2067	4089	4480	4441	4265
Shareholder's Equity	648	626	625	683	1987	1904	3751	3427	3302	3192
D/E Ratio	0.50	0.52	0.64	0.86	0.99	1.09	1.09	1.31	1.35	1.34

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	6.9%	6.3%	6.6%	10.7%	2.0%	2.1%	3.6%	2.0%	3.1%	3.3%
Return on Equity	12.2%	10.8%	12.0%	21.6%	4.7%	5.1%	8.5%	4.8%	8.0%	8.5%
ROIC	8.1%	7.1%	7.4%	11.9%	2.2%	2.3%	3.9%	2.2%	3.4%	3.6%
Shares Out.	40	40	41	40	69	68	104	104	107	108
Revenue/Share	5.84	5.85	6.51	7.72	7.33	7.03	9.10	8.81	8.79	7.85
FCF/Share	1.22	-0.23	2.03	1.67	1.55	2.78	3.76	4.69	4.97	4.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.