



Realty Income (O)

Updated February 21st, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	4.8%	Volatility Percentile:	24.3%
Fair Value Price:	\$57	5 Year Growth Estimate:	5.0%	Momentum Percentile:	97.7%
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-4.1%	Growth Percentile:	34.1%
Dividend Yield:	3.9%	5 Year Price Target	\$71	Valuation Percentile:	21.6%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	21.8%

Overview & Current Events

Realty Income is a retail real estate focused REIT that has become famous for its successful dividend growth history and its monthly dividend payments. Realty Income owns more than 4,000 properties and is valued at \$20.3 billion. Realty Income owns retail properties that are not part of a wider retail development (such as a mall), but rather standalone properties. This means that the properties are viable for many different tenants, including government services, healthcare services, and entertainment. Realty Income was founded in 1969 and is headquartered in San Diego.

Realty Income announced its fourth quarter earnings results on February 20. The company reported that it has generated revenues of \$343 million during the fourth quarter, which was 10.3% more than the revenues that Realty Income has generated during the fourth quarter of the previous year. Revenue growth was possible thanks to a combination of a larger asset base, which was impacted by investments worth \$1.8 billion that Realty Income made throughout the last year, as well as by the impact of increasing rents for existing properties.

Realty Income's funds from operations rose considerably versus the prior year's quarter, but since Realty Income has also issued new shares to finance some of the acquisitions that the company has made, its funds-from-operations-per-share only rose by 3.9% versus the prior year's quarter, to \$0.79. This was still more than what the analyst community had forecasted, though, and similar to Realty Income's FFO-per-share growth rate during the full fiscal year.

Realty Income's management guides for funds from operations of \$3.25 to \$3.31 on a per-share basis, which implies a growth rate of ~3% versus what Realty Income earned in fiscal 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFOPS	\$1.86	\$1.86	\$2.01	\$2.06	\$2.41	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.28	\$4.19
DPS	\$1.71	\$1.72	\$1.74	\$1.77	\$2.15	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.75	\$3.45
Shares	104	118	133	133	207	225	250	260	284	299	310	345

Realty Income does not generate overly high funds from operations growth rates (on a per-share basis), but the growth that the REIT is experiencing has been very steady. Adjusted FFO-per-share grew by 6.2% annually between 2009 and 2018, although the growth rate has declined to 5.2% over the last three years.

Realty Income generates its growth through growing the rents at existing locations, via contracted rent increases or by leasing properties to new tenants at higher rates, as well as by acquiring new properties. Management invested about \$1.8 billion in new properties during 2018, which was slightly more than management's guidance for acquisitions/investments of roughly \$1.75 billion. These acquisitions will 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, and other non-retail services. This is in stark contrast to 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 across Realty Income's portfolio 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 FFO continued to grow through the last financial crisis.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/AFFO	14.0	18.3	17.4	19.4	15.4	18.7	19.0	19.8	18.7	19.7	21.0	17.0
Avg. Yld.	7.6%	5.4%	5.1%	4.5%	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.9%	4.8%

Realty Income has been a higher-quality retail REIT for many years. The trust's strong track record when it comes to dividends as well as its solid operational performance even during the last financial crisis are reasons for its above-average valuation. Shares currently look quite expensive, though, even compared to the already relatively high median funds from operations multiple. Indeed, we believe that shares are overvalued at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	91.9%	92.5%	86.6%	85.9%	89.2%	85.2%	82.8%	83.0%	82.9%	82.8%	83.8%	82.3%

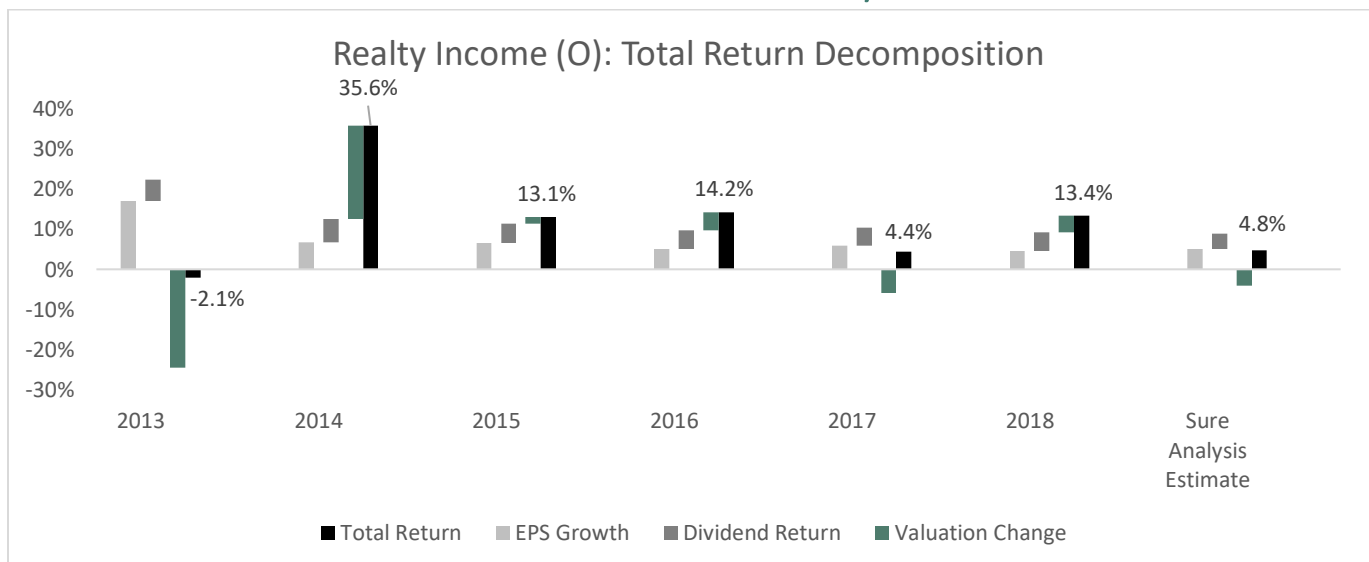
Realty Income has a high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historic range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend looks quite sustainable, despite the fact that Realty Income pays out more than 80% of its profits in the form of dividends.

Realty Income's most important competitive advantage is its high-class management team that has successfully guided the company in the past. Management is highly adept at finding attractive investment opportunities while also growing the rents from existing properties. Due to the focus on standalone properties that can be used in many different ways, Realty Income should be relatively safe from the retail apocalypse and the Amazon impact.

Final Thoughts & Recommendation

Realty Income is a high-quality REIT with great track records for dividend growth, share price gains, and consistent earnings growth. The company is well-recognized among retail income investors, and rightfully so. At the current price Realty Income does not look overly attractive, though, as shares trade at a substantial premium to fair value. Because of this, Realty Income earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	325	323	333	412	485	780	934	1023	1103	1216
Gross Profit	320	316	328	397	463	741	880	968	1040	1146
Gross Margin	98.3%	98.0%	98.3%	96.3%	95.6%	95.0%	94.2%	94.6%	94.3%	94.3%
SG&A Exp.	22	21	25	31	38	57	51	49	52	58
D&A Exp.	89	90	92	117	148	307	375	409	450	499
Operating Profit	209	205	211	249	278	378	454	509	538	589
Operating Margin	64.3%	63.6%	63.2%	60.5%	57.3%	48.4%	48.6%	49.8%	48.8%	48.5%
Net Profit	132	131	131	157	159	246	271	284	316	319
Net Margin	40.6%	40.7%	39.2%	38.1%	32.8%	31.5%	29.0%	27.7%	28.6%	26.2%
Free Cash Flow	246	227	243	299	326	519	628	694	800	876
Income Tax	1	1	1	1	1	2	3	3	3	6

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2994	2915	3536	4419	5429	9924	11013	11845	13153	14058
Cash & Equivalents	47	10	18	4	5	10	4	40	9	7
Accounts Receivable	11	10	11	15	22	39	64	82	105	120
Goodwill & Int. Ass.	17	17	43	171	259	951	1055	1050	1097	1210
Total Liabilities	1440	1427	1689	2165	3017	4503	5372	5292	6366	6667
Long-Term Debt	1370	1355	1600	2055	2870	4167	4931	4821	5840	6111
Shareholder's Equity	1217	1150	1509	1917	1803	4776	5218	6136	6371	7372
D/E Ratio	0.88	0.91	0.87	0.91	1.19	0.77	0.88	0.74	0.86	0.83

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	4.3%	4.4%	4.1%	3.9%	3.2%	3.2%	2.6%	2.5%	2.5%	2.3%
Return on Equity	10.9%	11.1%	9.8%	9.2%	8.6%	7.5%	5.4%	5.0%	5.0%	4.6%
ROIC	4.4%	4.5%	4.2%	4.0%	3.3%	3.3%	2.7%	2.6%	2.6%	2.4%
Shares Out.	101	104	118	133	133	207	225	250	260	284
Revenue/Share	3.21	3.11	3.15	3.27	3.65	4.07	4.27	4.33	4.32	4.44
FCF/Share	2.43	2.19	2.30	2.37	2.46	2.71	2.87	2.94	3.13	3.20

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

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