W. P. Carey (WPC)

Updated November 15th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	2.4%	**Volatility Percentile:**	5.0%
Fair Value Price:	$62	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	78.8%
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Growth Percentile:**	24.9%
Dividend Yield:	4.9%	**5 Year Price Target**	$74	**Valuation Percentile:**	19.2%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	20.3%

Overview & Current Events

W.P. Carey is a commercial real estate focused REIT that operates two segments: real estate ownership and investment management. The REIT operates more than 1,200 single tenant properties on a net lease basis, across the US and Northern and Western Europe. W.P. Carey was founded more than 40 years ago, is headquartered in New York, NY, and is currently valued at a market capitalization of $14.5 billion.

W. P. Carey reported its third quarter earnings results on November 1. The trust reported that its revenues totaled $303 million during the quarter, which was 68.8% more than the revenues that W. P. Carey generated during the previous year's period. This very sizable revenue growth rate was primarily attributed to the impact of the CPA:17 acquisition that increased W. P. Carey's asset base and rent proceeds drastically, although other acquisitions and organic growth had a positive impact on W. P. Carey's revenue growth rate as well.

During the third quarter the trust was more profitable than what the analyst community expected, as funds-from-operations came in at $1.30 on a per-share basis, which was $0.15, or 13% more than the analyst consensus. Funds-from-operations were down on a per-share basis compared to the previous year's quarter, mainly due to the steep increase in W. P. Carey's share count. W. P. Carey has announced that it expects adjusted funds-from-operations in a range of $4.95 to $5.01 on a per-share basis during 2019, which equates to a reduction versus the funds-from-operations that W. P. Carey generated during the previous fiscal year, with the higher share count once again being the main culprit.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFOPS	$3.09	$3.27	$4.71	$3.76	$4.22	$4.81	$4.99	$5.12	$5.30	$5.41	***$4.98***	***$5.91***
DPS	$2.00	$2.03	$2.19	$2.44	$3.39	$3.69	$3.81	$3.90	$4.01	$4.09	***$4.13***	***$4.56***
Shares[1]	40	41	40	69	68	104	104	107	108	146	***171***	***180***

W. P. Carey generated FFO-per-share growth rate of 6.4% annually between 2009 and 2018, which is a solid growth rate for a real estate investment trust, as these usually are low-growth vehicles. The growth rate has slowed down over the years, though, as W. P. Carey's FFO-per-share growth rate has averaged just 3% between 2014 and 2018. This is still a decent growth rate for a REIT with an above-average dividend yield.

W. P. Carey invests additional money into new properties continuously. Since 2012 the REIT invested roughly $10 billion, excluding the CPA:17 takeover, into new assets by either purchasing entire REITs or through single-asset/portfolio purchases. W. P. Carey can access debt markets at favorable rates, which lowers the trust's cost of capital, which then allows for improved investment spreads. Since W. P. Carey cannot finance these acquisitions with debt alone, and since the REIT does not retain a large portion of its cash flows, W. P. Carey issues new shares regularly. A factor that drives organic revenue growth is that the contracts W. P. Carey and the tenants have signed include ongoing rent increases, which results in growing revenues even without new asset purchases. These growth factors will persist going forward,

[1] In Millions

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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, however.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	9.1	9.5	8.7	12.4	13.4	12.9	12.7	12.2	12.4	12.0	***17.1***	***12.5***
Avg. Yld.	7.7%	6.7%	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	6.3%	***4.9%***	***6.2%***

W. P. Carey's share price has risen substantially during 2019, while profits during 2019 will be lower than during the last couple of years, primarily due to the costs that occur for the integration of CPA:17. This combination has made W. P. Carey's shares quite expensive, and shares are trading well above our fair value estimate right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	64.7%	62.1%	46.5%	64.9%	80.3%	76.7%	76.4%	76.2%	75.7%	75.6%	***82.9%***	***77.1%***

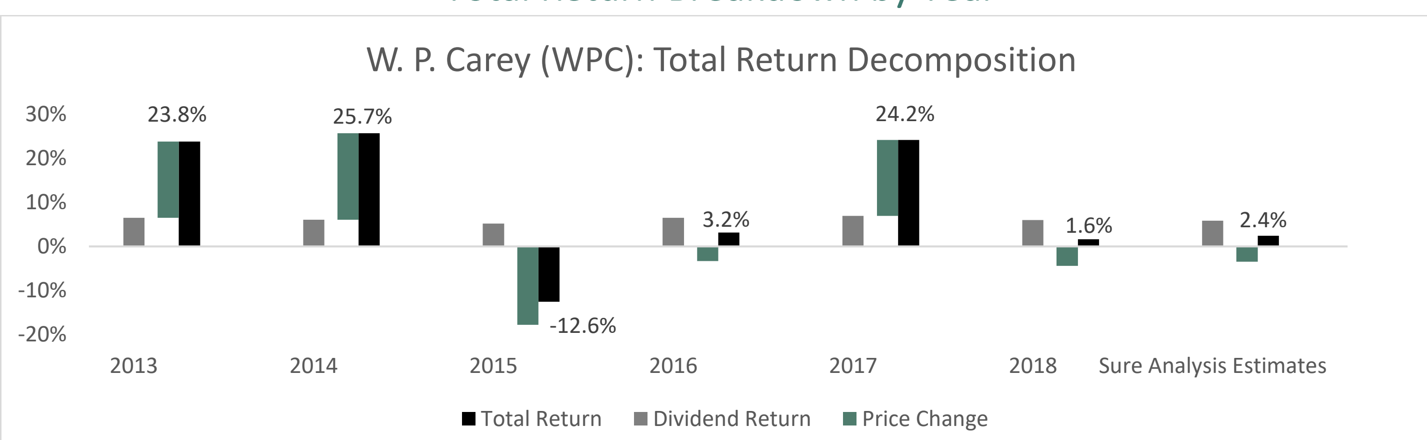
W. P. Carey has grown its dividend very regularly during the last decade. There has not been a dividend cut or dividend freeze during that time frame. The dividend payout ratio is high, especially during the current year, as the trust will pay out almost all of its profits to its owners. We still believe that the dividend is sustainable, especially as W. P. Carey did not have any problems financing its dividend during previous recessions.

W.P. Carey is quite recession-proof, as even during the last financial crisis it managed to keep its profits stable. 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, which makes the REIT a safe investment. This safety is underlined by long-lasting contracts, very high occupancy rates of ~99%, considerable scale, and an investment grade rating. 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 trust's business.

Final Thoughts & Recommendation

W. P. Carey is a fundamentally strong and low-risk REIT, and the trust has a compelling dividend growth track record. W. P. Carey is active in an attractive and non-cyclical industry. Due to the fact that shares of W. P. Carey are trading at the highest valuation they have traded at during the last decade, however, total returns will be negatively impacted by multiple compression to a large degree. We rate W. P. Carey a sell due primarily to valuation concerns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	232	261	310	352	490	908	938	942	848	886
Gross Profit	218	184	236	224	382	694	796	787	728	793
Gross Margin	93.8%	70.8%	76.1%	63.7%	78.0%	76.4%	84.8%	83.6%	85.8%	89.5%
SG&A Exp.	111	73	94	95	108	128	136	115	103	96
D&A Exp.	24	24	30	55	131	248	317	283	316	349
Operating Profit	84	93	121	85	152	329	387	396	371	405
Operating Margin	36.2%	35.6%	39.2%	24.0%	31.0%	36.2%	41.3%	42.1%	43.8%	45.8%
Net Profit	69	75	141	62	99	240	172	268	277	412
Net Margin	29.7%	28.9%	45.5%	17.6%	20.3%	26.4%	18.4%	28.4%	32.7%	46.5%
Free Cash Flow	-9	81	67	74	194	375	500	547	521	509
Income Tax	23	26	37	7	1	18	38	3	3	14

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1093	1172	1463	4609	4679	8648	8742	8454	8231	14183
Cash & Equivalents	18	65	29	124	118	199	157	155	162	218
Accounts Receivable	N/A	N/A	N/A	0	4	3	4	5	4	1
Goodwill & Int. Ass.	85	88	126	1063	1072	2244	2100	2458	2498	3856
Total Liabilities	453	499	746	2352	2476	4758	5181	5029	4820	7353
Accounts Payable	52	41	82	159	166	294	342	267	263	404
Long-Term Debt	326	397	589	1968	2067	4089	4480	4441	4265	6379
Shareholder's Equity	626	625	683	1987	1904	3751	3427	3302	3192	6824
D/E Ratio	0.52	0.64	0.86	0.99	1.09	1.09	1.31	1.35	1.34	0.93

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.3%	6.6%	10.7%	2.0%	2.1%	3.6%	2.0%	3.1%	3.3%	3.7%
Return on Equity	10.8%	12.0%	21.6%	4.7%	5.1%	8.5%	4.8%	8.0%	8.5%	8.2%
ROIC	7.1%	7.4%	11.9%	2.2%	2.3%	3.9%	2.2%	3.4%	3.6%	3.9%
Shares Out.	40	41	40	69	68	104	104	107	108	146
Revenue/Share	5.85	6.51	7.72	7.33	7.03	9.10	8.81	8.79	7.85	7.52
FCF/Share	-0.23	2.03	1.67	1.55	2.78	3.76	4.69	5.11	4.82	4.33

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