



Realty Income (O)

Updated February 22nd, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$82	5 Year CAGR Estimate:	3.4%	Market Cap:	\$28B
Fair Value Price:	\$64	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/28/20
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-5.0%	Dividend Payment Date:	03/13/20
Dividend Yield:	3.4%	5 Year Price Target	\$81	Years Of Dividend Growth:	26
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	3.3%

Overview & Current Events

Realty Income is a retail real estate focused REIT that has become famous for its successful dividend growth history and monthly dividend payments. Today, the trust owns more than 4,000 properties. Realty Income owns retail properties that are not part of a wider retail development (such as a mall), but instead are 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 19. The trust reported that it generated revenues of \$398 million during the quarter, which was 16% more than the revenues that Realty Income generated during the previous year's quarter. Realty Income's rents at existing properties were responsible for some of the growth in the trust's top line, but investments into new properties were an even larger factor for increased rent generation. Revenues were higher than what the analyst community had forecast, beating the consensus estimate by \$23 million.

Realty Income's funds-from-operations rose substantially versus the prior year's quarter, but since Realty Income also issued new shares to finance some of the acquisitions the trust made, its funds-from-operations-per-share growth was partially offset. Realty Income nevertheless managed to grow its funds-from-operations-per-share by 9% year-over-year, as its funds-from-operations-per-share came in at \$0.86 during the fourth quarter. Realty Income's management announced strong guidance for 2020; the REIT forecasts funds-from-operations of \$3.50 to \$3.56 on a per-share basis.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFOPS	\$1.86	\$2.01	\$2.06	\$2.41	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.30	\$3.53	\$4.51
DPS	\$1.72	\$1.74	\$1.77	\$2.15	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.72	\$2.79	\$3.48
Shares¹	118	133	133	207	225	250	260	284	299	330	340	360

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% annually between 2009 and 2019, although the growth rate has declined to a lower level of 5% over the last couple of years.

Realty Income generates its growth through growing rents at existing locations, via contracted rent increases or by leasing properties to new tenants at higher rates, but also by acquiring new properties. Management invested about \$3.7 billion in new properties during 2019. Realty Income expects to increase its investments in international markets during the next couple of years. It made a deal in the UK during 2019 for example, and plans to do more such deals in the future. These acquisitions will help drive profits in the future, although they may not pay off immediately, as the issuance of new shares dilutes shareholders in the near term.

Realty Income's properties are relatively Amazon-proof, as the REIT owns standalone properties that can be used as cinemas, fitness centers, pharmacies, etc. Realty Income's properties are in demand and will likely remain so. The occupancy rate across Realty Income's portfolio stands at a very high level of around 98%.

¹ In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/AFFO	18.3	17.4	19.4	15.4	18.7	19.0	19.8	18.7	19.7	22.4	23.2	18.0
Avg. Yld.	5.4%	5.1%	4.5%	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.7%	3.4%	4.3%

Realty Income has been a higher-quality retail REIT for many years. The trust's strong track record of dividend growth, 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. We therefore believe that shares are overvalued at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	92.5%	86.6%	85.9%	89.2%	85.2%	82.8%	83.0%	82.9%	82.8%	82.4%	79.0%	77.2%

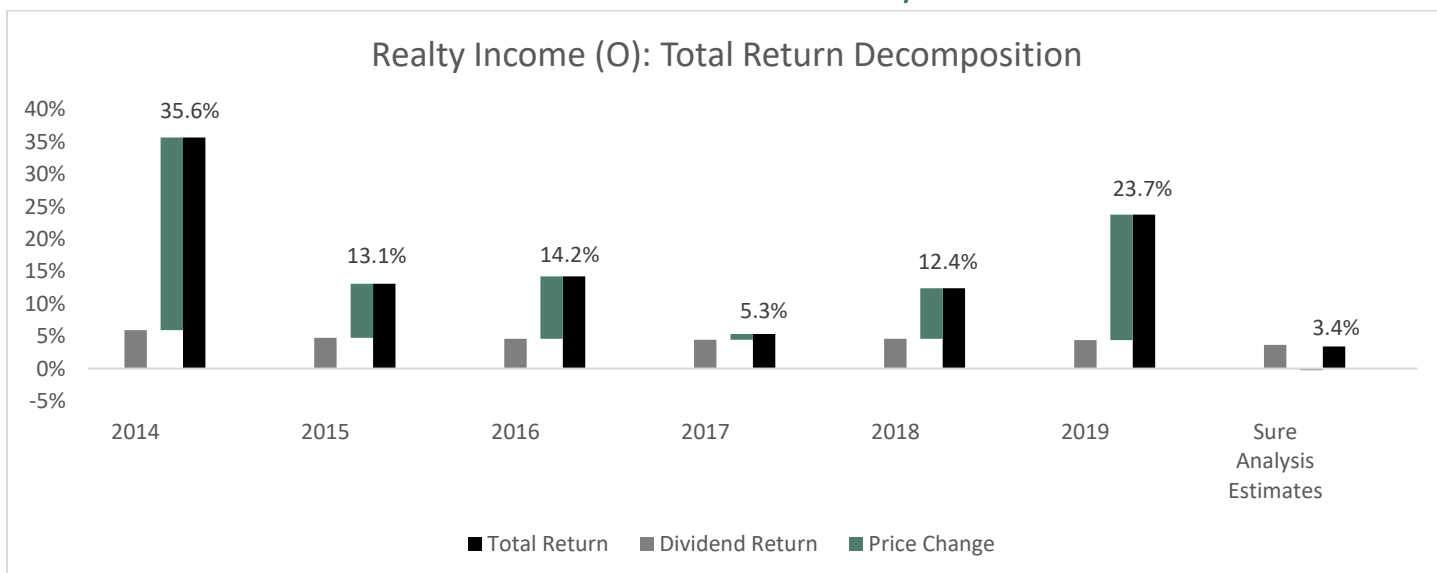
Realty Income has a high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historical range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend looks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

Realty Income's most important competitive advantage is its world class management team that has successfully guided the trust in the past. Management is highly adept at finding attractive investment opportunities while also growing rents from existing properties, which has been very profitable for its shareholders. Due to the focus on standalone properties that can be used in many different ways, Realty Income should be relatively safe from the so-called retail apocalypse.

Final Thoughts & Recommendation

Realty Income stands out from other retail REITs thanks to its very consistent dividend and earnings growth track record. The trust is well-recognized among income investors, partially due to making monthly payments. At the current price, Realty Income does not look very attractive, however, as shares trade at a huge premium to what we deem a fair valuation. Due to its high valuation, Realty Income earns a sell recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	333	412	485	780	934	1,023	1,103	1,216	1,328	1,492
Gross Profit	328	397	463	741	880	968	1,040	1,146	1,262	1,403
Gross Margin	98.3%	96.3%	95.6%	95.0%	94.2%	94.6%	94.3%	94.3%	95.0%	94.1%
SG&A Exp.	25	31	38	57	51	49	52	58	84	66
D&A Exp.	92	117	148	307	375	409	450	499	540	
Operating Profit	211	249	278	378	454	509	538	589	638	743
Operating Margin	63.2%	60.5%	57.3%	48.4%	48.6%	49.8%	48.8%	48.5%	48.0%	49.8%
Net Profit	131	157	159	246	271	284	316	319	364	436
Net Margin	39.2%	38.1%	32.8%	31.5%	29.0%	27.7%	28.6%	26.2%	27.4%	29.3%
Free Cash Flow	243	299	326	519	628	694	800	876	941	
Income Tax	1	1	1	2	3	3	3	6	5	6

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,536	4,419	5,429	9,924	11,013	11,845	13,153	14,058	15,260	18,555
Cash & Equivalents	18	4	5	10	4	40	9	7	10	54
Accounts Receivable	11	15	22	39	64	82	105	120	145	182
Goodwill & Int. Ass.	43	171	259	951	1,055	1,050	1,097	1,210	1,214	1,493
Total Liabilities	1,689	2,165	3,017	4,503	5,372	5,292	6,366	6,667	7,140	8,751
Long-Term Debt	1,600	2,055	2,870	4,167	4,931	4,821	5,840	6,111	6,500	7,902
Shareholder's Equity	1,509	1,917	1,803	4,776	5,218	6,136	6,371	7,372	8,089	9,774
D/E Ratio	0.87	0.91	1.19	0.77	0.88	0.74	0.86	0.83	0.80	0.81

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.1%	3.9%	3.2%	3.2%	2.6%	2.5%	2.5%	2.3%	2.5%	2.6%
Return on Equity	9.8%	9.2%	8.6%	7.5%	5.4%	5.0%	5.0%	4.6%	4.7%	4.9%
ROIC	4.2%	4.0%	3.3%	3.3%	2.7%	2.6%	2.6%	2.4%	2.6%	2.7%
Shares Out.	118	133	133	207	225	250	260	284	299	330
Revenue/Share	3.15	3.27	3.65	4.07	4.27	4.33	4.32	4.44	4.58	4.71
FCF/Share	2.30	2.37	2.46	2.71	2.87	2.94	3.13	3.20	3.24	

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

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