W. P. Carey (WPC)

Updated February 27th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$83	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$15B
Fair Value Price:	$62	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	03/28/20[1]
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	04/15/20[2]
Dividend Yield:	5.0%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	22
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	0.8%

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 $15 billion.

W. P. Carey reported its fourth quarter earnings results on February 21. The trust reported that its revenues totaled $311 million during the quarter, which was 13.8% more than the revenues that W. P. Carey generated during the previous year's period. This sizable revenue growth rate was partially 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 fourth quarter the trust was more profitable than what the analyst community expected, as funds-from-operations came in at $1.28 on a per-share basis, which was $0.13, or 11% 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 $4.86 to $5.01 on a per-share basis during 2020, which was easily ahead of what the analyst community had been forecasting for the current year, as the consensus estimate stood at $4.59.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFOPS	$3.27	$4.71	$3.76	$4.22	$4.81	$4.99	$5.12	$5.30	$5.41	$5.00	***$4.94***	***$5.87***
DPS	$2.03	$2.19	$2.44	$3.39	$3.69	$3.81	$3.90	$4.01	$4.09	$4.15	***$4.15***	***$4.58***
Shares[3]	41	40	69	68	104	104	107	108	146	165	***167***	***180***

W. P. Carey generated FFO-per-share growth at a rate of 6 % annually between 2009 and 2019, 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] Estimated date
[2] Estimated date
[3] In Millions

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.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	9.5	8.7	12.4	13.4	12.9	12.7	12.2	12.4	12.0	15.8	***16.8***	***12.5***
Avg. Yld.	6.7%	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	6.3%	5.3%	***5.0%***	***6.2%***

W. P. Carey's share price has risen substantially during 2019 and early 2020, while profits have not grown since 2018, primarily due to the costs that occur for the integration of CPA:17. This combination has made W. P. Carey's shares quite expensive, shares are therefore trading well above our fair value estimate right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	62.1%	46.5%	64.9%	80.3%	76.7%	76.4%	76.2%	75.7%	75.6%	83.0%	***84.0%***	***78.1%***

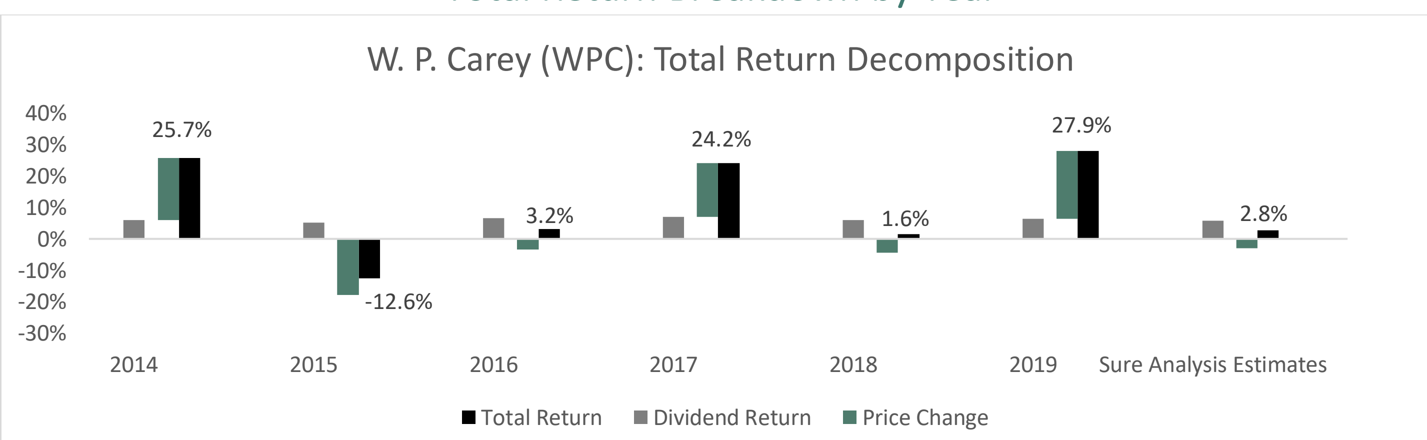
W. P. Carey has grown its dividend very regularly during the last decade. There has not been a dividend cut or dividend freeze during that time frame. The dividend payout ratio is high, especially during the current year, as the trust will pay out almost all of its profits to its owners. We still believe 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 the REIT 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 safer 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, low-risk REIT, and the trust has a very solid 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	261	310	352	490	908	938	942	848	886	1,233
Gross Profit	184	236	224	382	694	796	787	728	793	1,083
Gross Margin	70.8%	76.1%	63.7%	78.0%	76.4%	84.8%	83.6%	85.8%	89.5%	87.9%
SG&A Exp.	73	94	95	108	128	136	115	103	96	102
D&A Exp.	24	30	55	131	248	317	283	316	349	545
Operating Profit	93	121	85	152	329	387	396	371	405	534
Operating Margin	35.6%	39.2%	24.0%	31.0%	36.2%	41.3%	42.1%	43.8%	45.8%	43.3%
Net Profit	74	139	62	99	240	172	268	277	412	305
Net Margin	28.4%	44.9%	17.6%	20.2%	26.4%	18.4%	28.4%	32.7%	46.5%	24.8%
Free Cash Flow	81	67	74	194	375	500	547	521	509	812
Income Tax	26	37	7	1	18	38	3	3	14	26

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1,172	1,463	4,609	4,679	8,648	8,742	8,454	8,231	14,183	14,061
Cash & Equivalents	65	29	124	118	199	157	155	162	218	196
Accounts Receivable			0	4	3	4	5	4	1	1
Goodwill & Int. Ass.	88	126	1,063	1,072	2,244	2,100	2,458	2,498	3,856	4,031
Total Liabilities	499	746	2,352	2,476	4,758	5,181	5,029	4,820	7,353	7,113
Accounts Payable	41	82	159	166	294	342	267	263	404	487
Long-Term Debt	397	589	1,968	2,067	4,089	4,480	4,441	4,265	6,379	6,054
Shareholder's Equity	625	683	1,987	1,904	3,751	3,427	3,302	3,192	6,824	6,942
D/E Ratio	0.64	0.86	0.99	1.09	1.09	1.31	1.35	1.34	0.93	0.87

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.5%	10.6%	2.0%	2.1%	3.6%	2.0%	3.1%	3.3%	3.7%	2.2%
Return on Equity	11.8%	21.3%	4.7%	5.1%	8.5%	4.8%	8.0%	8.5%	8.2%	4.4%
ROIC	7.3%	11.7%	2.2%	2.3%	3.9%	2.2%	3.4%	3.6%	3.9%	2.3%
Shares Out.	41	40	69	68	104	104	107	108	146	165
Revenue/Share	6.51	7.72	7.33	7.03	9.10	8.81	8.79	7.85	7.52	7.20
FCF/Share	2.03	1.67	1.55	2.78	3.76	4.69	5.11	4.82	4.33	4.74

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