W. P. Carey (WPC)

Updated August 18th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	6.2%	**Market Cap:**	$12.4B
Fair Value Price:	$63	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	09/28/20[1]
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	10/15/20[2]
Dividend Yield:	5.7%	**5 Year Price Target**	$75	**Years Of Dividend Growth:**	22
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	0.5%

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 and is headquartered in New York, NY.

W. P. Carey reported its second quarter earnings results on July 31. The trust reported that its revenues totaled $291 million during the quarter, which was 5% less than the revenues that W. P. Carey generated during the previous year's period. Revenues came in slightly below the analyst consensus estimate.

During the second quarter the trust was more profitable than what the analyst community expected, as funds-from-operations came in at $1.14 on a per-share basis, which was $0.05 more than the analyst consensus. Funds-from-operations were down on a per-share basis compared to the previous year's quarter, declining by 7% year over year. W. P. Carey had previously withdrawn its guidance for 2020, citing the coronavirus crisis and the unknown impact it will have on the REIT. So far, W.P. Carey is weathering the storm quite well, as funds from operations declined only slightly during the second quarter, while Q1 was better compared to the previous year. Rent collection has improved to 98% for July, which is why Q3 and Q4 could be back in line with pre-crisis levels.

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	***$5.05***	***$6.00***
DPS	$2.03	$2.19	$2.44	$3.39	$3.69	$3.81	$3.90	$4.01	$4.09	$4.15	***$4.17***	***$4.60***
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 very 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 more than $10 billion 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 sign include ongoing rent increases, which results in growing revenues even without new asset purchases. These growth factors should persist going forward, which is why W. P. Carey should be able to increase its profits over the coming years. Due to the defensive nature of its business and a strong performance during past recessions, we believe that W.P. Carey will fare well during the coronavirus crisis.

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[1] Estimated date

[2] Estimated date

[3] In Millions

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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	***14.3***	***12.5***
Avg. Yld.	6.7%	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	6.3%	5.3%	***5.7%***	***6.1%***

W. P. Carey's share price has recovered a lot since our last update, which is why its valuation is no longer as low as it was three months ago. Right now shares are trading for 14 times this year's expected funds from operations, which is a bit of a premium over the historic mean. The dividend yield is still relatively high, at more than 5%.

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%	***82.6%***	***76.8%***

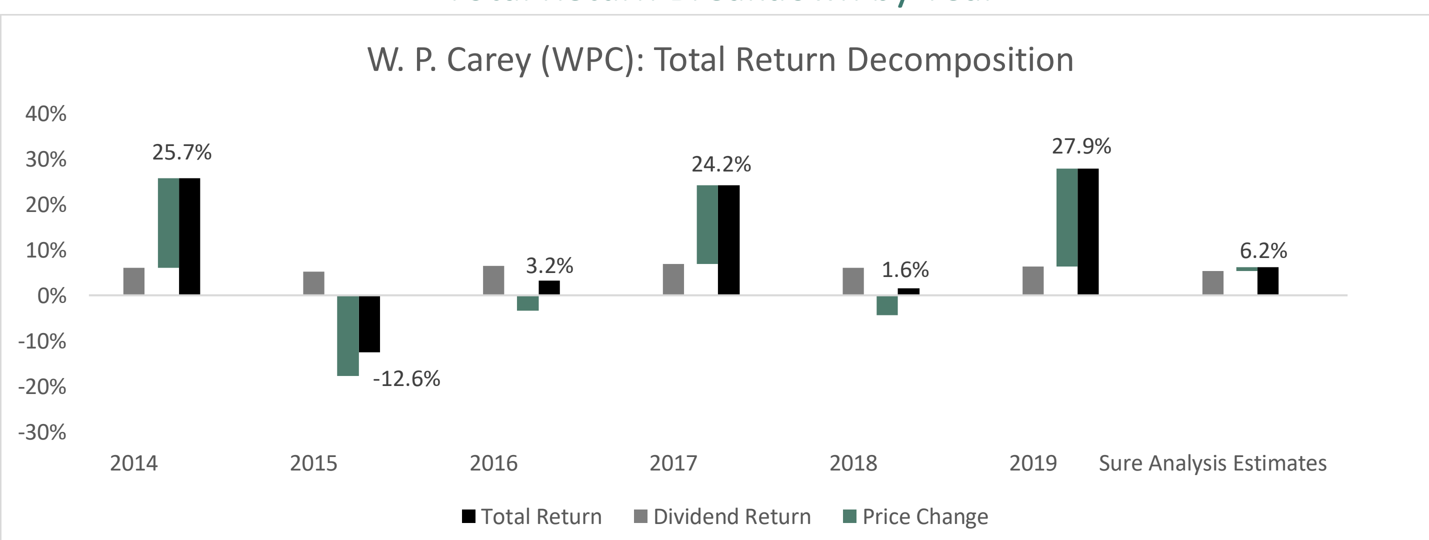
W. P. Carey has grown its dividend very regularly during the last decade. There has not been a dividend cut or dividend freeze during that time frame. The dividend payout ratio is high, as the REIT is paying out more than 80% of its funds from operations via dividends right now. We still believe that 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 credit 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 competitors or new market entrant will hurt its 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. The REIT is weathering the current pandemic relatively well, and even increased its dividend during the most recent quarter, although only marginally. Shares are trading slightly above our fair value estimate, which is why we rate the stock a hold for now.

Total Return Breakdown by Year



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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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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.