# Camden Property Trust (CPT)

*Updated October 30th, 2020 by Eli Inkrot*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $92 | **5 Year CAGR Estimate:** | 7.5% | **Market Cap:** | $9 B |
| **Fair Value Price:** | $89 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date[1]:** | 12/13/20 |
| **% Fair Value:** | 104% | **5 Year Valuation Multiple Estimate:** | -0.8% | **Dividend Payment Date[1]:** | 01/17/21 |
| **Dividend Yield:** | 3.6% | **5 Year Price Target** | $113 | **Years Of Dividend Growth:** | 10 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | D | **Last Dividend Increase:** | 3.8% |

## Overview & Current Events

Founded in 1993, and headquartered in Houston, Texas, Camden Property Trust is one of the largest publicly traded multifamily companies in the United States. The company is structured as a Real Estate Investment Trust (REIT), owning, managing, and developing multifamily apartment communities. As of September 30th, 2020 Camden owned 165 properties containing 56,383 apartments. The $9 billion market cap company has approximately 1,600 employees.

On October 29th, 2020 Camden released Q3 2020 results for the period ending September 30th, 2020. For the quarter the company reported property revenue of $265.7 million, a 1.9% gain compared to Q3 2019, as the company continues to prove resilient amidst the COVID-19 pandemic. Net income equaled $36.2 million versus $44.8 million in the prior year's quarter, while adjusted Funds From Operations (FFO) totaled $104.3 million compared to $110.3 million in Q3 2019. On a per share basis, earnings-per-share, FFO and adjusted FFO came in at $0.35, $1.25 and $1.03 versus $0.44, $1.29 and $1.09 in the year ago quarter. For the first nine months of the year Camden generated adjusted FFO of $3.14 per share compared to $3.28 in 2019.

In Q3 2020 Camden reported occupancy of 95.6% compared to 95.2% a year ago, with 99.4% of rent being collected versus 98.3% in Q3 2019. The company currently has 9 properties in the construction phase of development.

Camden also provided 2020 guidance, anticipating $1.25 to $1.31 in EPS and $4.90 to $4.96 in FFO per share.

## Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FFO** | $2.72 | $2.73 | $3.62 | $4.11 | $4.29 | $4.54 | $4.64 | $4.53 | $4.77 | $5.05 | ***$4.93*** | ***$6.29*** |
| **DPS** | $1.80 | $1.96 | $2.24 | $2.52 | $2.64 | $2.80 | $2.95 | $3.00 | $3.08 | $3.20 | ***$3.32*** | ***$4.24*** |
| **Shares[2]** | 69.8 | 78.8 | 96.2 | 85.3 | 88.5 | 97.6 | 89.9 | 91.5 | 103.1 | 97.3 | ***101*** | ***115*** |

Note that we have presented FFO in the table above, as this better reflects the underlying earnings power of a REIT. Dating back to 2010, Camden has been able to grow its dividend and FFO by 6.6% and 7.1% per annum respectively. However, in the last five years these growth rates have slowed to 3.9% and 3.3% respectively. We are forecasting 5% annual growth over the intermediate-term – in-between these two historical marks – for a variety of reasons.

On the positive growth side, we expect Camden to come off a subdued base this year, making future growth easier to come by. In addition, we are impressed by the resilience that the company has demonstrated thus far, the small COVID-19 charges earlier in the year notwithstanding. In actuality, these actions may very well garner future goodwill, as the company offered relief funds to residents and bonuses to employees. In addition, general economic growth over the long-term ought to help drive growth and the 9 properties in development will add over 2,700 units.

Counterbalancing these positive notions, is the idea that growth began to slow even before the pandemic and Camden routinely issues shares to fund new properties. While this is a common practice among REITs, it does create a higher return bar that must be met before growth can occur on a per share level.

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[1] Estimated date.

[2] 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.*

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## Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **P/FFO** | 15.0 | 22.2 | 18.2 | 16.3 | 15.7 | 16.8 | 17.6 | 16.6 | 20.2 | 20.7 | ***18.7*** | ***18.0*** |
| **Avg. Yld.** | 4.4% | 4.8% | 3.4% | 3.8% | 3.9% | 3.7% | 3.6% | 3.7% | 3.5% | 3.1% | ***3.6%*** | ***3.8%*** |

Over the past decade shares of Camden have traded with an average price-to-FFO ratio of about 18. We believe this is more or less fair, taking into consideration the company's history and valuation of similar securities. With shares trading closer to 19 times FFO, this implies the potential for a small valuation headwind. Meanwhile, the dividend was cut during the Great Recession, but has since recovered nicely, having increased each year for the past decade. This component ought to buoy investor returns over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 66% | 72% | 62% | 61% | 62% | 62% | 64% | 66% | 65% | 63% | ***67%*** | ***67%*** |

Camden has a competitive advantage in its position as one of the largest multifamily REITs in the U.S. Its scale and expertise allow it to leverage its experience across a wide portfolio of properties and actively pursue developments.

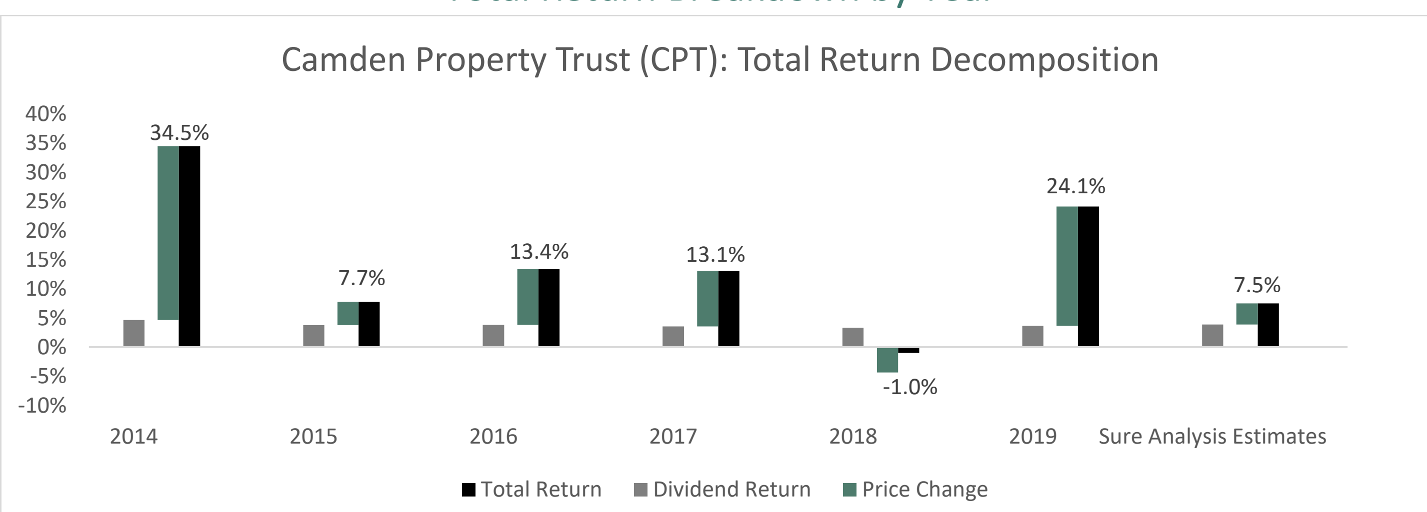
The company's FFO payout ratio has hovered in the 60% to 70% range for the last decade, which is where we anticipate it will remain with dividend growth tracking FFO growth over time. During the last recession, Camden posted FFO of $2.90, $1.68, $2.72 and $2.73 over the 2008 through 2011 stretch. Meanwhile, the dividend was cut from $2.80 down to $1.80 on an annual basis. This gives you some idea of the toll that recessions can take on the business, along with Camden's ability to bounce back. The company is holding up much better this time around, so far.

As of the most recent report, Camden held $6.5 billion in net real estate and $7.3 billion in total assets against $3.8 billion in total liabilities. The company's net debt-to-adjusted EBITDA ratio equaled 4.5x.

## Final Thoughts & Recommendation

Shares are up marginally since our last report. Camden is a leading multifamily REIT with a solid operating history in the last decade. The last recession was not especially kind to the company, but so far Camden is holding up quite well this time around. We are forecasting 7.5% annual total return potential, stemming from 5% growth and a 3.6% starting yield, offset by a minor valuation headwind. Shares earn a hold rating at the current quotation.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 568 | 599 | 698 | 789 | 790 | 836 | 876 | 901 | 955 | 1028 |
| Gross Profit | 341 | 369 | 442 | 503 | 505 | 535 | 565 | 572 | 611 | 662 |
| Gross Margin | 60% | 62% | 63% | 64% | 64% | 64% | 64% | 64% | 64% | 64% |
| SG&A Exp. | 47 | 52 | 54 | 56 | 69 | 67 | 70 | 72 | 74 | 76 |
| D&A Exp. | 174 | 182 | 210 | 222 | 222 | 241 | 250 | 264 | 301 | 336 |
| Operating Profit | 132 | 152 | 194 | 230 | 214 | 227 | 245 | 236 | 236 | 250 |
| Operating Margin | 23% | 25% | 28% | 29% | 27% | 27% | 28% | 26% | 25% | 24% |
| Net Profit | 30 | 56 | 286 | 336 | 292 | 249 | 820 | 196 | 156 | 220 |
| Net Margin | 5% | 9% | 41% | 43% | 37% | 30% | 94% | 22% | 16% | 21% |
| Free Cash Flow | 160 | 17 | 34 | 47 | -79 | 11 | 100 | 136 | 145 | 148 |
| Income Tax | 2 | 2 | 1 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 4700 | 4622 | 5385 | 5632 | 6044 | 6038 | 6028 | 6174 | 6220 | 6749 |
| Cash & Equivalents | 171 | 55 | 27 | 18 | 154 | 11 | 237 | 368 | 34 | 23 |
| Accounts Receivable | --- | 31 | 34 | 28 | 26 | 25 | 24 | 24 | 23 | 22 |
| Total Liabilities | 2942 | 2696 | 2758 | 2825 | 3087 | 3065 | 2856 | 2612 | 2782 | 3047 |
| Accounts Payable | --- | 94 | 102 | 113 | 157 | 133 | 138 | 128 | 147 | 172 |
| Long-Term Debt | --- | 2432 | 2510 | 2531 | 2731 | 2725 | 2481 | 2205 | 2322 | 2524 |
| Shareholder's Equity | 1686 | 1857 | 2563 | 2739 | 2884 | 2896 | 3092 | 3483 | 3364 | 3629 |
| D/E Ratio | --- | 1.31 | 0.98 | 0.92 | 0.95 | 0.94 | 0.80 | 0.63 | 0.69 | 0.70 |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 0.6% | 1.2% | 5.7% | 6.1% | 5.0% | 4.1% | 13.6% | 3.2% | 2.5% | 3.4% |
| Return on Equity | 1.9% | 3.2% | 13.0% | 12.7% | 10.4% | 8.6% | 27.4% | 6.0% | 4.6% | 6.3% |
| ROIC | 1.0% | 1.8% | 6.0% | 6.4% | 5.3% | 4.4% | 14.4% | 3.4% | 2.7% | 3.7% |
| Shares Out. | 68.6 | 73.5 | 85.6 | 88.5 | 88.5 | 89.5 | 89.9 | 92.5 | 95.4 | 99.4 |
| Revenue/Share | $8.28 | $8.16 | $8.16 | $8.91 | $8.93 | $9.34 | $9.75 | $9.74 | $10.01 | $10.35 |
| FCF/Share | $2.34 | $0.23 | $0.39 | $0.54 | -$0.89 | $0.13 | $1.11 | $1.47 | $1.52 | $1.49 |

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