VICI Properties (VICI)

Published January 28th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	11.5%	**Market Cap:**	$13.4 B
Fair Value Price:	$25	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	3/29/2021[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	4/8/2021
Dividend Yield:	5.0%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.9%

Overview & Current Events

VICI Properties (VICI) is an experiential real estate investment trust (REIT) that owns one of the largest portfolios of gaming, hospitality and entertainment destinations, including the well-known Caesars Palace. It was formed in late 2017 as a spin-off from Caesars Entertainment (CZR) and now has 29 gaming facilities comprising 48 million square feet, more than 19,000 hotel rooms and more than 200 restaurants, bars and nightclubs. It has a market capitalization of $13.4 billion. Caesars Entertainment generates 83% of the rental income of VICI Properties.

Many REITs are vulnerable to the pandemic, which has resulted in a work-from-home lifestyle. Many REITs are also vulnerable to the "Amazon effect", as the shift of consumers to online shopping has led numerous retail stores out of business. VICI Properties is much more resilient than most REITs to these secular threats, as the core experiences its tenants offer cannot be achieved at home, work or digitally.

In late October, VICI Properties reported (10/28/20) financial results for the third quarter of fiscal 2020. All the tenants of the company incurred enforced shutdowns of their properties for at least a few days due to the pandemic but VICI Properties grew its revenue 53% over the prior year's quarter and enhanced its adjusted funds from operations (FFO) per share from $0.35 to $0.43 thanks to the acquisition of new properties. The tenants of VICI Properties are currently facing a severe downturn due to the pandemic but the REIT has proved resilient, as it posted record FFO and raised its quarterly dividend by 11% in 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	---	---	---	---	---	---	---	$0.19[2]	$1.43	$1.24	***$1.68***	***$2.36***
DPS	---	---	---	---	---	---	---	$0.00	$1.00	$1.14	***$1.26***	***$1.77***
Shares[3]	---	---	---	---	---	---	---	228	367	439	***537***	***900***

VICI Properties has proved markedly resilient to the pandemic. Even better, we expect the pandemic to subside at the second half of the year thanks to the massive distribution of vaccines. VICI Properties will certainly benefit from the resultant economic recovery. The company has also identified several prospective properties in order to expand its footprint in Las Vegas and other areas. Overall, we expect the REIT to grow its FFO per share at a 7.0% average annual rate over the next five years. This is lower than the 8.4% average annual growth rate achieved in the last two years but we prefer to be somewhat conservative due to the short history of the REIT.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg P/FFO	---	---	---	---	---	---	---	---	14.2	18.0	***14.9***	***15.0***
Avg. Yld.	---	---	---	---	---	---	---	0.0%	4.9%	5.1%	***5.0%***	***5.0%***

[1] Estimated date.
[2] Includes only the period October-December 2017.
[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.

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The stock of VICI Properties has doubled off its bottom in March and thus it has retrieved most of its pandemic-driven losses. Nevertheless, it is still trading at an attractive P/FFO ratio of 14.9, which is lower its 2-year average P/FFO ratio of 16.1. Due to the short history of the REIT, we assume a fair FFO multiple of 15.0. If the stock trades at our assumed fair valuation level in five years, it will enjoy a marginal 0.2% annualized gain thanks to the expansion of its P/FFO ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	0.0%	69.9%	91.9%	***75.0%***	***75.0%***

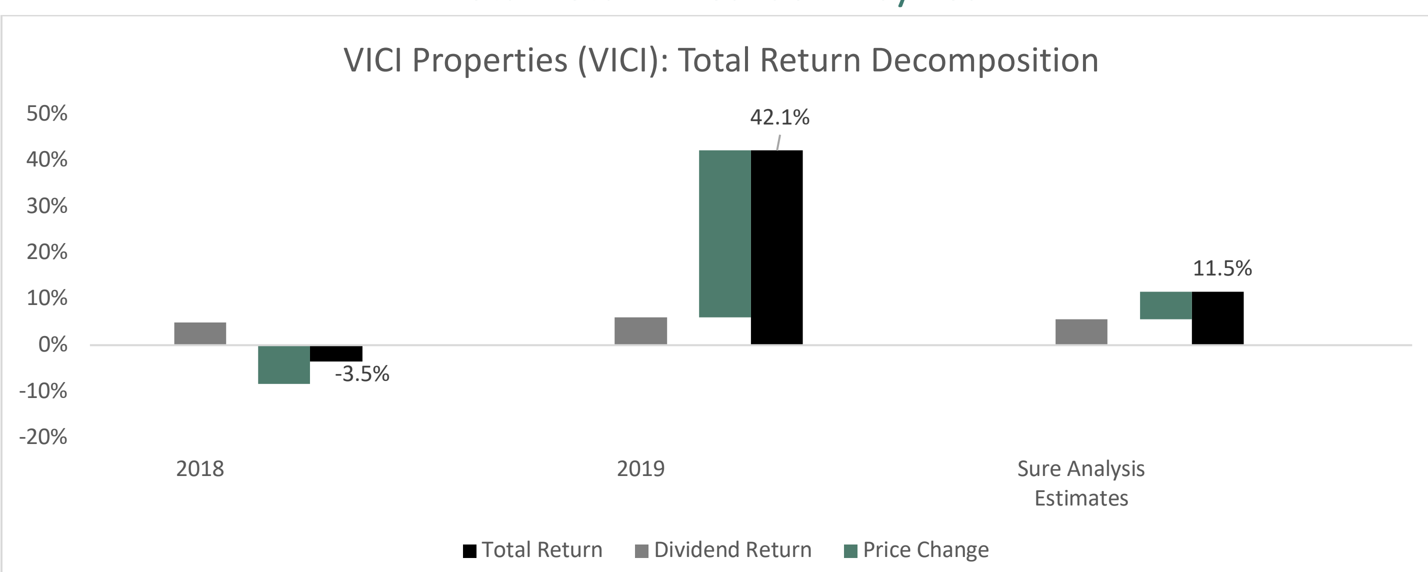
VICI Properties has more than doubled its share count during its short history. This is a point of concern but the REIT has grown its FFO at a higher rate and thus it has grown its FFO per share significantly. It is also offering a 5.0% dividend, with a reasonable payout ratio of 75%, and it does not have debt maturities until 2024. Therefore, its dividend can be considered safe in the absence of a prolonged pandemic.

On the other hand, investors should be aware of the excessive debt load of VICI Properties. Its net debt of $6.7 billion results in a net leverage ratio (net debt to EBITDA) of 6.5, which raises a red flag. On the bright side, VICI Properties has a much more resilient business model than most REITs, as the experiences offered by its tenants are not vulnerable to the "Amazon effect" or the "work from home" trend. Another risk factor is the strong dependence on the performance of Caesars Entertainment, which generates 83% of the rental income of VICI Properties. Due to the high debt load of VICI Properties and its strong ties to Caesars Entertainment, the stock and its dividend will come under great pressure whenever the REIT faces an unforeseen headwind, such as a prolonged pandemic or another headwind in the business of Caesars Entertainment.

Final Thoughts & Recommendation

VICI Properties has proved markedly resilient to the pandemic. Thanks to its strong business performance, its stock has doubled off its March lows but it is still trading at a reasonable valuation level. As a result, we expect it to offer an 11.5% average annual return over the next five years thanks to 7.0% growth in its FFO per share and its 5.0% dividend. We thus rate VICI Properties as a buy, particularly for investors who are confident that the pandemic will subside later this year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	---	---	19	18	19	201	898	895
Gross Profit	---	---	---	---	5	5	5	168	799	876
Gross Margin	---	---	---	---	25.6%	25.8%	26.9%	83.2%	89.0%	97.9%
SG&A Exp.	---	---	---	---	2	2	2	11	24	25
D&A Exp.	---	---	---	---	3	3	3	3	4	4
Operating Profit	---	---	---	---	0	0	0	153	771	847
Op. Margin	---	---	---	---	0.2%	0.1%	0.0%	76.1%	85.8%	94.7%
Net Profit	---	---	---	---	0	0	---	43	524	546
Net Margin	---	---	---	---	0.0%	0.0%	0.0%	21.2%	58.3%	61.0%
Free Cash Flow	---	---	---	---	3	2	2	130	496	671

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	---	---	92	90	9,740	11,333	13,266
Cash & Equivalents	---	---	---	---	---	0	1	184	578	1,102
Accounts Receivable	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	---	---	---	---	---	---	---	---	---	---
Accounts Payable	---	---	---	---	---	7	6	4,963	4,432	5,217
Long-Term Debt	---	---	---	---	---	0	0	5	1	1
Shareholder's Equity	---	---	---	---	---	0	0	4,786	4,122	4,792
D/E Ratio	---	---	---	---	---	85	84	4,691	6,817	7,965

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	---	---	---	---	0.9%	5.0%	4.4%
Return on Equity	---	---	---	---	---	---	---	1.8%	9.1%	7.4%
ROIC	---	---	---	---	---	---	---	0.9%	5.1%	4.6%
Shares Out.	---	---	---	---	---	---	---	228	367	439
Revenue/Share	---	---	---	---	0.05	0.05	0.05	0.61	2.44	2.04
FCF/Share	---	---	---	---	0.01	0.01	0.01	0.40	1.35	1.53

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