



Realty Income (O)

Updated February 23rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	8.1%	Market Cap:	\$23B
Fair Value Price:	\$62	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/26/21
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	03/15/21
Dividend Yield:	4.5%	5 Year Price Target	\$76	Years Of Dividend Growth:	26
Dividend Risk Score:	C	Retirement Suitability Score:	B	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 22. The trust reported that it generated revenues of \$418 million during the quarter, which was 5% more than the revenues that Realty Income generated during the previous year's quarter. Realty investments into new properties that the REIT made over the last four quarters were responsible for most of the increase in the company's rent proceeds. Revenues were higher than what the analyst community had forecast, beating the consensus estimate by \$20 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 offset. Realty Income nevertheless managed to generate funds-from-operations-per-share of \$0.84 during the quarter, which beat the consensus estimate slightly. Realty Income expects that its results during 2021 will represent a new record, as funds from operations are expected at \$3.47.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFOPS	\$2.01	\$2.06	\$2.41	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.30	\$3.39	\$3.47	\$4.22
DPS	\$1.74	\$1.77	\$2.15	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.72	\$2.80	\$2.81	\$3.34
Shares¹	133	133	207	225	250	260	284	299	330	355	360	380

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, which is a very solid result for a REIT, as those are not growth investments primarily.

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, and another \$2.1 billion during 2020. Realty Income expects to increase its investments in international markets during the next couple of years. It made a first deal in the UK in 2019 and plans to do more such deals in the future when it finds attractive targets. These acquisitions will help drive profits in the long run, 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, dollar stores, etc. Realty Income's properties are in demand and will likely remain so. The occupancy rate across the portfolio is around 99%, and tenants generally report high rent coverage ratios.

¹ 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	17.4	19.4	15.4	18.7	19.0	19.8	18.7	19.7	22.4	18.3	17.9	18.0
Avg. Yld.	5.1%	4.5%	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.7%	4.5%	4.5%	4.4%

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 relatively fairly valued, and substantially cheaper than they were during 2019. We believe that multiple expansion will not be a large tailwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	86.6%	85.9%	89.2%	85.2%	82.8%	83.0%	82.9%	82.8%	82.4%	82.6%	81.0%	79.1%

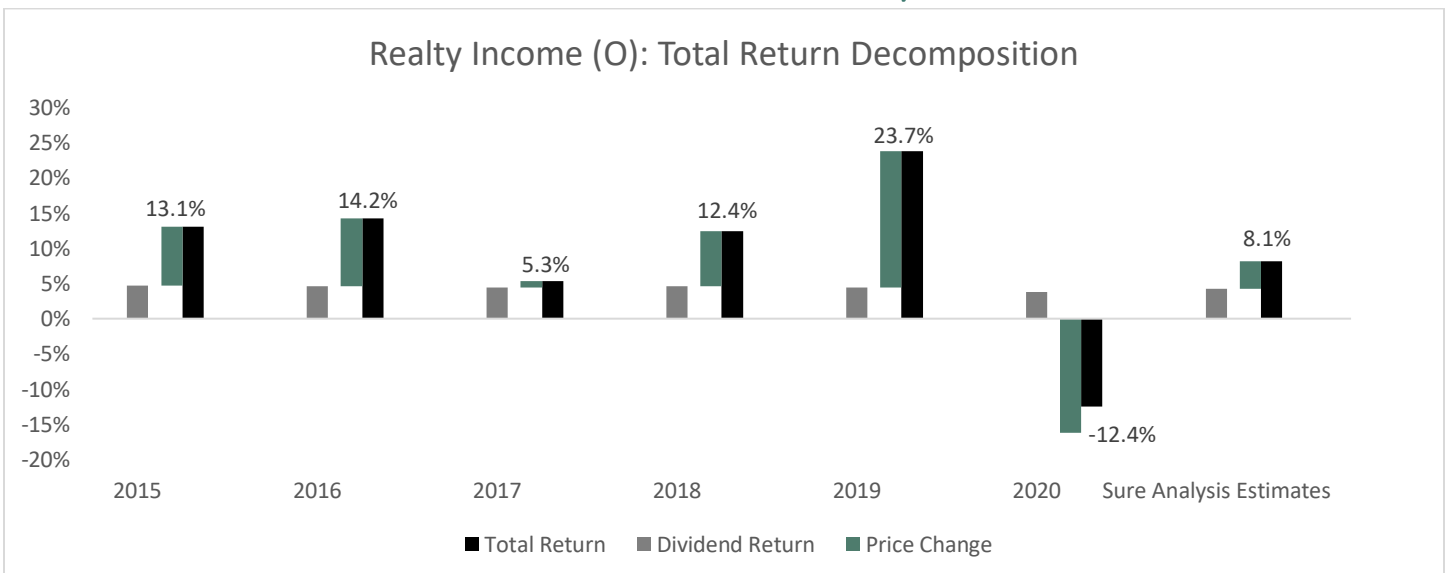
Realty Income has a high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historical range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend looks 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 is 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 due to making monthly dividend payments. At the current price, Realty Income does look attractive, as shares are trading close to fair value. Due to its attractive forecasted total returns we rate Realty Income a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	412	485	780	934	1,023	1,103	1,216	1,328	1,492	1,652
Gross Profit	397	463	741	880	968	1,040	1,146	1,262	1,403	1,547
Gross Margin	96.3%	95.6%	95.0%	94.2%	94.6%	94.3%	94.3%	95.0%	94.1%	93.7%
SG&A Exp.	31	38	57	51	49	52	58	84	66	73
D&A Exp.	117	148	307	375	409	450	499	540	594	
Operating Profit	249	278	378	454	509	538	589	638	743	797
Operating Margin	60.5%	57.3%	48.4%	48.6%	49.8%	48.8%	48.5%	48.0%	49.8%	48.2%
Net Profit	157	159	246	271	284	316	319	364	436	395
Net Margin	38.1%	32.8%	31.5%	29.0%	27.7%	28.6%	26.2%	27.4%	29.3%	23.9%
Free Cash Flow	299	326	519	628	694	800	876	941	1,069	
Income Tax	1	1	2	3	3	3	6	5	6	15

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4419	5429	9924	11013	11845	13153	14058	15260	18555	20740
Cash & Equivalents	4	5	10	4	40	9	7	10	54	824
Accounts Receivable	15	22	39	64	82	105	120	145	182	286
Goodwill & Int. Ass.	171	259	951	1,055	1,050	1,097	1,210	1,214	1,508	1,711
Total Liabilities	2,165	3,017	4,503	5,372	5,292	6,366	6,667	7,140	8,751	9,723
Long-Term Debt	2,055	2,870	4,167	4,931	4,821	5,840	6,111	6,500	7,902	8,817
Shareholder's Equity	1,917	1,803	4,776	5,218	6,136	6,371	7,372	8,089	9,774	10,985
D/E Ratio	0.91	1.19	0.77	0.88	0.74	0.86	0.83	0.80	0.81	0.80

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.9%	3.2%	3.2%	2.6%	2.5%	2.5%	2.3%	2.5%	2.6%	2.0%
Return on Equity	9.2%	8.6%	7.5%	5.4%	5.0%	5.0%	4.6%	4.7%	4.9%	3.8%
ROIC	4.0%	3.3%	3.3%	2.7%	2.6%	2.6%	2.4%	2.6%	2.7%	2.1%
Shares Out.	133	133	207	225	250	260	284	299	330	355
Revenue/Share	3.27	3.65	4.07	4.27	4.33	4.32	4.44	4.58	4.72	4.76
FCF/Share	2.37	2.46	2.71	2.87	2.94	3.13	3.20	3.24	3.38	

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

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