Lexington Realty Trust (LXP)

Updated August 17th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$13	**5 Year CAGR Estimate:**	0.8%	**Market Cap:**	$3.7 B
Fair Value Price:	$11	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	9/29/2021
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date[2]:**	10/15/2021
Dividend Yield:	3.2%	**5 Year Price Target:**	$12	**Years of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	2.4%

Overview & Current Events

Lexington Realty Trust owns equity and debt investments in single-tenant properties and land across the United States. The Trust's portfolio is primarily industrial equity investments in single-tenant net-leased commercial properties. Roughly 94% of the current portfolio is industrial investments. The trust grows the industrial portfolio by financing, or by acquiring new investments with long-term leases, repositioning the portfolio by recycling capital and opportunistically taking advantage of capital markets. Additionally, the Trust supplies investment advisory and asset management services for investors in the single-tenant net-lease asset market. Lexington Realty trades on the NYSE under the ticker symbol LXP and is headquartered in New York. LXP has a market capitalization of $3.7 billion.

On August 5th, LXP released second quarter results. The trust announced adjusted trust funds from operations (AFFO) of $52.2 million, or $0.18 per diluted common share. Year-over-year, AFFO per share of $0.18 fell by one penny. Year-to-date, adjusted FFO of $0.41 is slightly higher than the $0.38 earned in the first half of 2020.

During the second quarter, the trust completed 1.1 million square feet of new leases and lease extensions. Additionally, the Trust acquired seven industrial properties for a combined $205.5 million and disposed of three properties for $125.3 million. LXP also began development of a 1.1 million square foot warehouse/distribution property in Indianapolis, Indiana and invested an additional $23.7 million in six on-going development projects.

At the quarter end, the trust had leverage of 4.9x net debt to adjusted EBITDA and $285.2 million available under their forward equity sales. The trust has successfully increased their industrial exposure to 94% of the portfolio, with the goal to completely transition the portfolio to 100% industrial. Presently, the trust's stabilized portfolio is 97.8% leased. The excellent leasing results have resulted in leadership announcing an increase to the mid-point of 2021 adjusted trust FFO guidance. The Trust estimates that LXP can generate roughly $0.76 in AFFO per share for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	$0.97	$0.98	$1.02	$1.11	$1.10	$1.14	$0.97	$0.96	$0.80	$0.76	***$0.76***	***$0.84***
DPS	$0.47	$0.55	$0.62	$0.68	$0.68	$0.69	$0.70	$0.71	$0.41	$0.42	***$0.43***	***$0.45***
Shares[3]	152.5	179.7	209.8	229.4	233.8	237.7	241.5	240.8	237.9	268.2	***278.0***	***290.0***

Lexington Realty has a long-term track record of shrinking adjusted funds from operations in both the historical nine and five year periods. Over the last nine and five years, LXP's adjusted FFO has decreased by 2.7% and 7.1% per year on average. Additionally, the dividend has also shrunk over the long-term, and today it is still below its 2011 level. Despite this, with the trust's focus on transforming the REIT into a 100% industrial REIT, we conservatively estimate the trust can grow AFFO by 2% annually in the near term.

The trust's ballooning share count will continue to expand to fund industrial property acquisitions and bolster the portfolio. Additionally, as development projects come to completion, and new leases are signed, AFFO will grow. The

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[1] Estimate

[2] Estimate

[3] In thousands

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Trust can also grow organically through increases in same store net operating income (NOI). We estimate the trust will tack on token increases to the annual dividend to build a consecutive dividend growth streak from the 2019 base.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	8.6	9.2	11.4	9.8	8.4	8.3	10.5	8.8	12.2	13.9	**17.6**	***14.0***
Avg. Yld.	5.4%	5.5%	5.0%	5.9%	7.4%	7.4%	6.8%	8.4%	6.2%	4.0%	**3.2%**	***3.8%***

The current P/AFFO of 17.6 based on 2021's estimated AFFO is a steep premium to the 5-year and 10-year averages of 10.7 and 10.1. However, given the trust's transformation to a complete industrial property REIT, by disposing of its remaining office and commercial properties, or redeveloping existing properties, we provide a boost to our valuation estimate, to 14.0 times, which would still result in valuation losses of 4.5%. We provide this valuation credit due to the demand and attractiveness for industrial properties post-pandemic.

Safety, Quality, Competitive Advantage, & Recession Resiliency

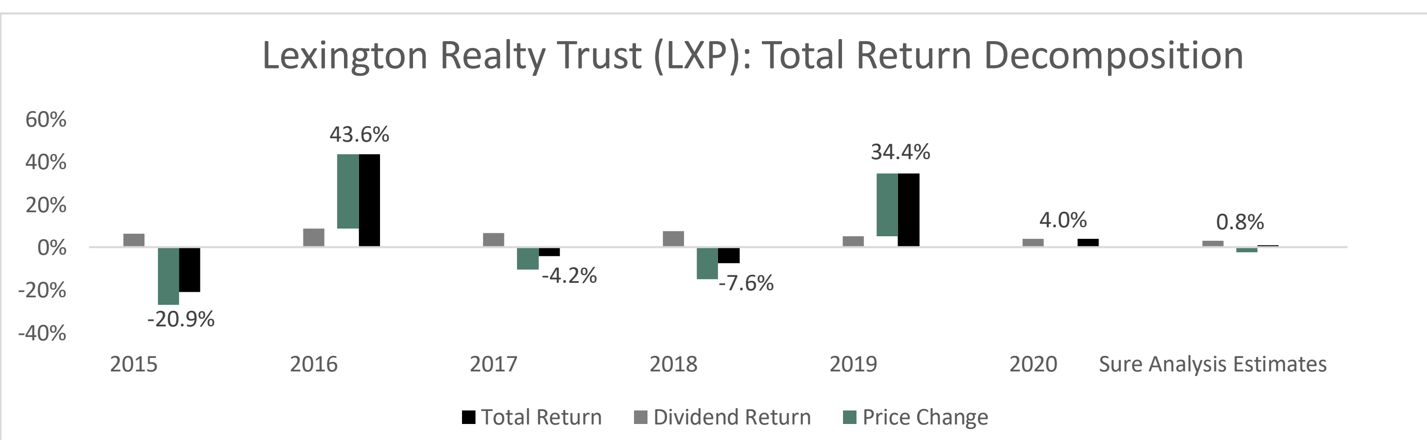
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	48%	56%	61%	61%	62%	60%	72%	74%	52%	56%	**57%**	**55%**

Lexington Realty has maintained a fairly conservative payout ratio over the last decade, however, it has done so because it has cut the dividend multiple times as adjusted funds from operations shrunk. This, unfortunately, adds to the risk of the trust and increases the volatility of estimating total returns. LXP was negatively impacted by the great recession, which saw the trust's dividend fall from a height of $1.83 in 2006 to $0.42 in 2010. During that time, the share count increased massively and still the trust reported losses. Lexington is not recession resistant, though its industrial concentration was a boon during the COVID pandemic. We see only a small competitive advantage in LXP's growth strategy, where they invest only in "shovel-ready" opportunities to avoid risk, and partner with merchant builders, who will typically take on the risk of cost overruns.

Final Thoughts & Recommendation

Lexington Realty Trust has a history of shrinking adjusted funds from operations over the last decade, and the recent five year period. Additionally, the dividend cannot be trusted after being slashed multiple times. Despite this, we believe the trust can squeeze growth out of their industrial property focus. For the time being, we believe shares trade at 126% of our estimated fair value, which would result in a 4.5% headwind to total returns. Overall, we expect 0.8% in total returns and thus rate LXP a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	292	297	361	424	431	429	393	397	326	330
Gross Profit	92	113	148	205	208	216	170	186	136	127
Gross Margin	31.5%	38.2%	41.1%	48.4%	48.3%	50.3%	43.2%	46.9%	41.8%	38.4%
SG&A Exp.	22	24	28	28	29	31	34	32	31	30
D&A Exp.	168	172	184	167	167	170	178	172	154	168
Operating Profit	70	90	120	177	179	185	135	154	106	97
Op. Margin	23.9%	30.2%	33.2%	41.8%	41.5%	43.1%	34.5%	38.9%	32.4%	29.2%
Net Profit	(80)	180	2	93	112	96	86	227	280	183
Net Margin	-27.2%	60.7%	0.5%	22.0%	25.9%	22.3%	21.8%	57.3%	85.9%	55.5%
Free Cash Flow	148	114	157	197	216	235	213	202	174	185

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,027	3,418	3,772	3,778	3,808	3,441	3,553	2,954	3,180	3,493
Cash & Equivalents	64	34	77	191	93	87	108	169	123	179
Acct Receivable	7	7	30	68	95	39	58	62	70	70
Goodwill & Intang.	547	686	762	706	693	597	599	420	410	409
Total Liabilities	1,857	2,085	2,233	2,269	2,346	2,029	2,212	1,607	1,456	1,502
Accounts Payable	53	70	40	38	41	60	39	31	30	55
Long-Term Debt	1,533	1,749	1,927	1,964	2,055	1,734	1,942	1,365	1,185	1,214
Total Equity	800	1,063	1,422	1,392	1,346	1,299	1,230	1,236	1,611	1,877
D/E Ratio	1.38	1.34	1.27	1.32	1.43	1.24	1.47	1.03	0.69	0.62

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-2.5%	5.6%	0.0%	2.5%	2.9%	2.6%	2.4%	7.0%	9.1%	5.5%
Return on Equity	-8.7%	19.4%	0.1%	6.6%	8.2%	7.2%	6.8%	18.4%	19.7%	10.5%
ROIC	-2.8%	6.2%	0.0%	2.7%	3.2%	2.9%	2.7%	7.6%	10.0%	6.0%
Shares Out.	152.5	179.7	209.8	229.4	233.8	237.7	241.5	240.8	237.9	268.2
Revenue/Share	1.92	1.65	1.72	1.85	1.84	1.81	1.63	1.65	1.37	1.23
FCF/Share	0.97	0.63	0.75	0.86	0.92	0.99	0.88	0.84	0.73	0.69

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