VICI Properties (VICI)

Published August 24th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$29	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$15.7 B
Fair Value Price:	$31	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	9/23/2021
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	10/7/2021
Dividend Yield:	4.8%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	9.1%

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 28 gaming facilities comprising 47 million square feet, approximately 17,800 hotel rooms and more than 200 restaurants, bars and nightclubs. It has a market capitalization of $15.7 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 threats, as the core experiences its tenants offer cannot be achieved at home, work or digitally.

In late July, VICI Properties reported (7/28/21) financial results for the second quarter of fiscal 2021. VICI Properties maintained its strong momentum. It grew its revenue 46% over last year's quarter and enhanced its adjusted funds from operations (FFO) per share 28%, from $0.36 to $0.46, thanks to the acquisition of new properties. The tenants of VICI Properties are facing a downturn due to the pandemic but the REIT has proved resilient. Management raised the dividend by 9.1% and reiterated its guidance for adjusted FFO per share of $1.82-$1.87 this year, though we still expect FFO per share around $2.00 thanks to the strong momentum of the REIT.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	---	---	---	---	---	---	$0.19[1]	$1.43	$1.24	$1.64	***$2.00***	***$2.68***
DPS	---	---	---	---	---	---	---	$1.00	$1.14	$1.26	***$1.38***	***$1.85***
Shares[2]	---	---	---	---	---	---	228	367	439	542	***555***	***900***

VICI Properties has proved markedly resilient to the pandemic. Even better, the pandemic has begun to subside thanks to the massive distribution of vaccines. VICI Properties greatly benefits from the resultant recovery of economic activity. The company has also identified several prospective properties in order to expand its footprint in Las Vegas and other areas. In 2020, it acquired $4.6 billion of properties at a weighted-average initial yield of 7.8%. Overall, we expect the REIT to grow its FFO per share at a 6.0% average annual rate over the next five years. This is lower than the 7.1% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/FFO	---	---	---	---	---	---	---	14.2	18.0	13.6	***14.5***	***15.3***
Avg. Yld.	---	---	---	---	---	---	---	4.9%	5.1%	5.7%	***4.8%***	***4.5%***

[1] Only includes October-December 2017.
[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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VICI Properties is trading at an attractive P/FFO ratio of 14.5, which is lower than its 3-year average P/FFO ratio of 15.3. If the stock trades at its average valuation level in five years, it will enjoy a 1.1% annualized gain thanks to the expansion of its P/FFO ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	69.9%	91.9%	76.8%	***69.0%***	***69.0%***

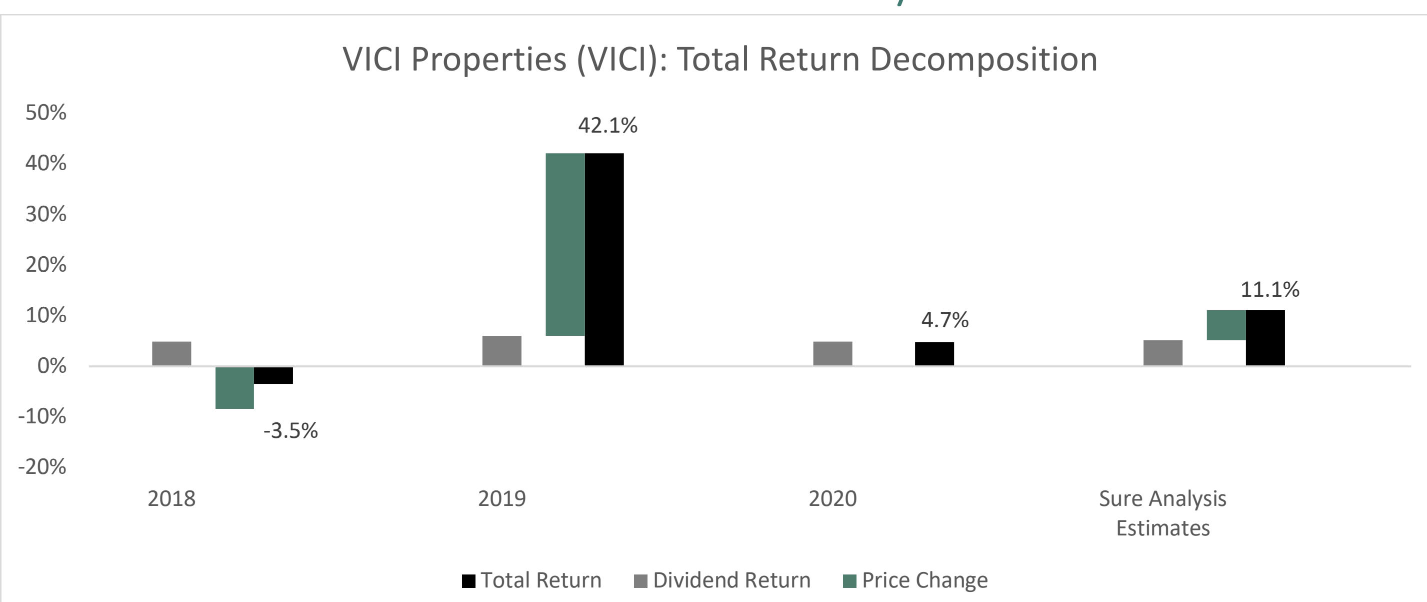
VICI Properties has more than doubled its share count during its short history. This is a point of concern, but the REIT has grown its FFO at a higher rate and thus it has grown its FFO per share. It is also offering a 4.8% dividend, with a reasonable payout ratio of 69%, and it does not have debt maturities 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 $7.4 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 while it also has promising growth prospects. Thanks to its recent correction, VICI Properties has become attractive. We expect it to offer an 11.1% average annual return over the next five years thanks to 6.0% growth in its FFO per share, its 4.8% dividend and a 1.1% annual expansion of its valuation level. We thus maintain our buy rating, particularly for investors who are confident that the pandemic will subside soon.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	---	19	18	19	201	898	895	1,226
Gross Profit	---	---	---	5	5	5	168	799	876	1,192
Gross Margin	---	---	---	25.6%	25.8%	26.9%	83.2%	89.0%	97.9%	97.3%
SG&A Exp.	---	---	---	2	2	2	11	24	25	31
D&A Exp.	---	---	---	3	3	3	3	4	4	4
Operating Profit	---	---	---	0	0	0	153	771	847	913
Op. Margin	---	---	---	0.2%	0.1%	0.0%	76.1%	85.8%	94.7%	74.5%
Net Profit	---	---	---	0	0	---	43	524	546	892
Net Margin	---	---	---	0.0%	0.0%	0.0%	21.2%	58.3%	61.0%	72.8%
Free Cash Flow	---	---	---	3	2	2	130	496	671	881

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	92	90	9,740	11,333	13,266	17,064
Cash & Equivalents	---	---	---	---	0	1	184	578	1,102	316
Accounts Receivable	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	---	---	---	---	7	6	4,963	4,432	5,217	7,570
Accounts Payable	---	---	---	---	0	0	5	1	1	1
Long-Term Debt	---	---	---	---	0	0	4,786	4,122	4,792	6,766
Shareholder's Equity	---	---	---	---	85	84	4,691	6,817	7,965	9,416
D/E Ratio	---	---	---	---	---	---	1.02	0.60	0.60	0.72

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	---	0.9%	5.0%	4.4%	5.9%
Return on Equity	---	---	---	---	---	---	1.8%	9.1%	7.4%	10.3%
ROIC	---	---	---	---	---	---	0.9%	5.1%	4.6%	6.1%
Shares Out.	---	---	---	---	---	---	228	367	439	542
Revenue/Share	---	---	---	0.05	0.05	0.05	0.61	2.44	2.04	2.40
FCF/Share	---	---	---	0.01	0.01	0.01	0.40	1.35	1.53	1.72

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