# W. P. Carey (WPC)

*Updated September 1st, 2021 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $78 | **5 Year CAGR Estimate:** | 4.3% | **Market Cap:** | $15 B |
| **Fair Value Price:** | $62 | **5 Year Growth Estimate:** | 3.5% | **Ex-Dividend Date:** | 09/28/21[1] |
| **% Fair Value:** | 125% | **5 Year Valuation Multiple Estimate:** | -4.4% | **Dividend Payment Date:** | 10/15/21[2] |
| **Dividend Yield:** | 5.4% | **5 Year Price Target** | $74 | **Years Of Dividend Growth:** | 23 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | A | **Last Dividend Increase:** | 0.5% |

## Overview & Current Events

W.P. Carey is a commercial real estate focused REIT that operates two segments: real estate ownership and investment management. The REIT operates more than 1,200 single tenant properties on a net lease basis, across the US and Northern and Western Europe. W.P. Carey was founded more than 40 years ago and is headquartered in New York, NY.

W. P. Carey reported its second quarter earnings results on August 12. The trust reported that its revenues totaled $320 million during the quarter, which was 10% more than the revenues that W. P. Carey generated during the previous year's period. Revenues came in ahead of the analyst consensus estimate by $5 million.

During the second quarter the trust was more profitable than what the analyst community expected, as funds-from-operations came in at $1.27 on a per-share basis, which was $0.09 more than the analyst consensus. Funds-from-operations were up by 11% on a per-share basis compared to the previous year's quarter.

W. P. Carey has updated its guidance for 2021, forecasting funds from operations in a range of $4.94 to $5.02 on a per-share basis, which means a steep improvement versus 2020 at the midpoint of the guidance range. 2020 had been a down year for the company, with some of the impact being caused by the pandemic, while a growing share count that led to some dilution also had an impact. In 2021, W.P. Carey is looking forward to getting back on growth track.

## Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FFOPS** | $4.71 | $3.76 | $4.22 | $4.81 | $4.99 | $5.12 | $5.30 | $5.41 | $5.00 | $4.60 | ***$4.98*** | ***$5.91*** |
| **DPS** | $2.19 | $2.44 | $3.39 | $3.69 | $3.81 | $3.90 | $4.01 | $4.09 | $4.15 | $4.18 | ***$4.20*** | ***$4.64*** |
| **Shares[3]** | 40 | 69 | 68 | 104 | 104 | 107 | 108 | 146 | 165 | 177 | ***173*** | ***180*** |

W. P. Carey generated FFO-per-share growth at a rate of 6% annually between 2009 and 2019, which is a very solid growth rate for a real estate investment trust, as these usually are low-growth vehicles. The growth rate has slowed down over the years, though, as W. P. Carey's FFO-per-share growth rate averaged just 3% between 2014 and 2018. FFOPS was lower in 2020 than 2014 as a result of COVID-19 and its impact on the REIT's operations.

W. P. Carey invests additional money into new properties continuously. Since 2012 the REIT invested more than $10 billion into new assets by either purchasing entire REITs or through asset/portfolio purchases. W. P. Carey can access debt markets at favorable rates, which lowers the trust's cost of capital, which then allows for improved investment spreads. Since W. P. Carey cannot finance these acquisitions with debt alone, and since the REIT does not retain a large portion of its cash flows, W. P. Carey issues new shares regularly. A factor that drives organic revenue growth is that the contracts W. P. Carey and the tenants sign include ongoing rent increases, which results in growing revenues even without new asset purchases. These growth factors should persist going forward, which is why W. P. Carey should be able to increase its profits over the coming years. Due to the defensive nature of its business, W.P. Carey remained profitable during the pandemic and was even able to raise its dividend.

[1] Estimated date
[2] Estimated date
[3] In Millions

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## Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| P/FFO | 8.7 | 12.4 | 13.4 | 12.9 | 12.7 | 12.2 | 12.4 | 12.0 | 15.8 | 15.2 | ***15.7*** | ***12.5*** |
| Avg. Yld. | 5.6% | 5.2% | 5.2% | 5.7% | 6.0% | 6.2% | 6.1% | 6.3% | 5.3% | 6.0% | ***5.4%*** | ***6.3%*** |

W. P. Carey's share price is up since our last update, and up quite substantially from the lows seen in 2020. Right now, shares are trading for roughly 16 times this year's expected funds from operations, which is a premium over the historic mean. The dividend yield is still relatively high, at more than 5%.

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

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 46.5% | 64.9% | 80.3% | 76.7% | 76.4% | 76.2% | 75.7% | 75.6% | 83.0% | 90.9% | ***84.3%*** | ***78.4%*** |

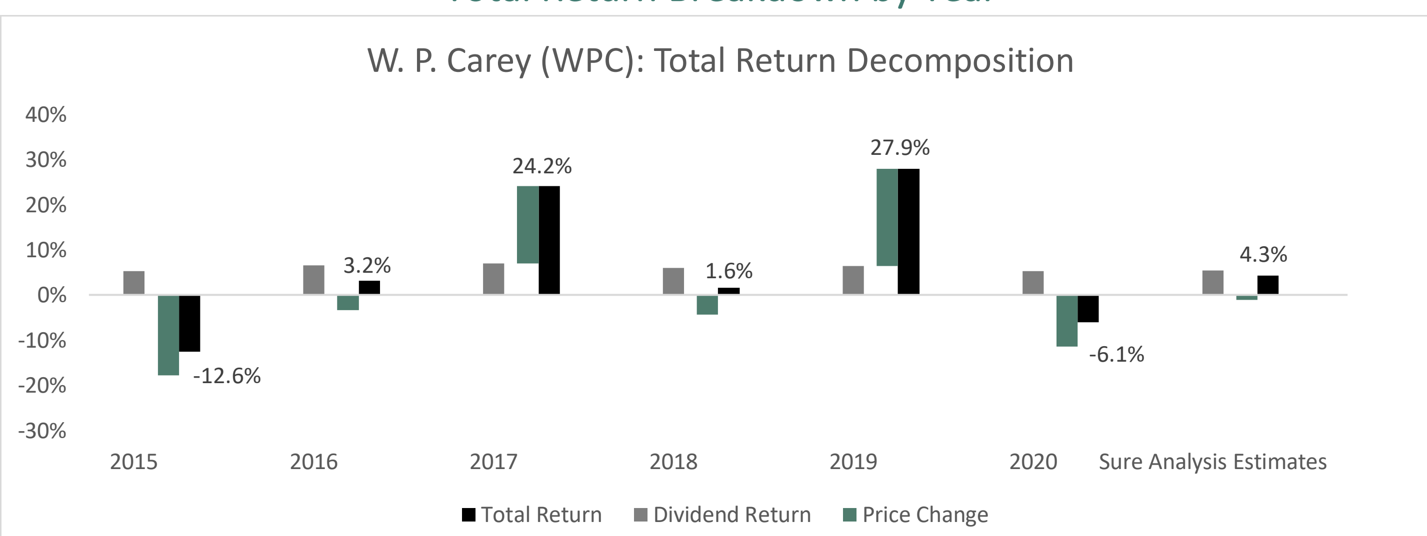
W. P. Carey has grown its dividend very regularly during the last decade. There has not been a dividend cut or dividend freeze during that time frame. The dividend payout ratio is high, as the REIT is paying out more than 80% of its funds from operations via dividends this year. We still believe that the dividend is sustainable, especially as W. P. Carey did not have any problems financing its dividend during previous recessions.

W.P. Carey is quite recession-proof, as even during the last financial crisis the REIT managed to keep its profits stable. Due to diversification across industries, as well as geographically (65% US, 30% Europe, 5% other), W. P. Carey is not overly dependent on the progress of any single market, which makes the REIT a safer investment. This safety is underlined by long-lasting contracts, remarkably high occupancy rates of ~99%, considerable scale, and an investment grade credit rating. W. P. Carey is one of the biggest players in its industry, and its focus on the sale-and-lease-back-transactions niche markets means that it is unlikely that competitors or new market entrant will hurt its business.

## Final Thoughts & Recommendation

W. P. Carey is a fundamentally strong low-risk REIT, and the trust has a very solid dividend growth track record. W. P. Carey is active in an attractive and non-cyclical market segment. The REIT has been weathering the current pandemic relatively well, and even increased its dividend in 2020 and 2021, although only marginally. Shares are trading above our fair value estimate, however, which is why we rate the stock a hold for now.

## Total Return Breakdown by Year

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*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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## Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 310 | 352 | 490 | 908 | 938 | 942 | 848 | 886 | 1,233 | 1,209 |
| Gross Profit | 236 | 224 | 382 | 694 | 796 | 787 | 728 | 793 | 1,083 | 1,090 |
| Gross Margin | 76.1% | 63.7% | 78.0% | 76.4% | 84.8% | 83.6% | 85.8% | 89.5% | 87.9% | 90.1% |
| SG&A Exp. | 94 | 95 | 108 | 128 | 136 | 115 | 103 | 96 | 102 | 93 |
| D&A Exp. | 30 | 55 | 131 | 248 | 317 | 283 | 316 | 349 | 545 | 509 |
| Operating Profit | 121 | 85 | 152 | 329 | 387 | 396 | 371 | 405 | 534 | 554 |
| Operating Margin | 39.2% | 24.0% | 31.0% | 36.2% | 41.3% | 42.1% | 43.8% | 45.8% | 43.3% | 45.8% |
| Net Profit | 139 | 62 | 99 | 240 | 172 | 268 | 277 | 412 | 305 | 455 |
| Net Margin | 44.9% | 17.6% | 20.2% | 26.4% | 18.4% | 28.4% | 32.7% | 46.5% | 24.8% | 37.7% |
| Free Cash Flow | 67 | 74 | 194 | 375 | 500 | 547 | 521 | 509 | 812 | 802 |
| Income Tax | 37 | 7 | 1 | 18 | 38 | 3 | 3 | 14 | 26 | (21) |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 1,463 | 4,609 | 4,679 | 8,648 | 8,742 | 8,454 | 8,231 | 14183 | 14061 | 14708 |
| Cash & Equivalents | 29 | 124 | 118 | 199 | 157 | 155 | 162 | 218 | 196 | 249 |
| Accounts Receivable |  | 0 | 4 | 3 | 4 | 5 | 4 | 1 | 1 | 0 |
| Goodwill & Int. Ass. | 126 | 1,063 | 1,072 | 2,244 | 2,100 | 2,458 | 2,498 | 3,856 | 4,031 | 4,093 |
| Total Liabilities | 746 | 2,352 | 2,476 | 4,758 | 5,181 | 5,029 | 4,820 | 7,353 | 7,113 | 7,829 |
| Accounts Payable | 82 | 159 | 166 | 294 | 342 | 267 | 263 | 404 | 487 | 604 |
| Long-Term Debt | 589 | 1,968 | 2,067 | 4,089 | 4,480 | 4,441 | 4,265 | 6,379 | 6,054 | 6,696 |
| Shareholder’s Equity | 683 | 1,987 | 1,904 | 3,751 | 3,427 | 3,302 | 3,192 | 6,824 | 6,942 | 6,877 |
| D/E Ratio | 0.86 | 0.99 | 1.09 | 1.09 | 1.31 | 1.35 | 1.34 | 0.93 | 0.87 | 0.97 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 10.6% | 2.0% | 2.1% | 3.6% | 2.0% | 3.1% | 3.3% | 3.7% | 2.2% | 3.2% |
| Return on Equity | 21.3% | 4.7% | 5.1% | 8.5% | 4.8% | 8.0% | 8.5% | 8.2% | 4.4% | 6.6% |
| ROIC | 11.7% | 2.2% | 2.3% | 3.9% | 2.2% | 3.4% | 3.6% | 3.9% | 2.3% | 3.4% |
| Shares Out. | 40 | 69 | 68 | 104 | 104 | 107 | 108 | 146 | 165 | 177 |
| Revenue/Share | 7.72 | 7.33 | 7.03 | 9.10 | 8.81 | 8.79 | 7.85 | 7.52 | 7.20 | 6.92 |
| FCF/Share | 1.67 | 1.55 | 2.78 | 3.76 | 4.69 | 5.11 | 4.82 | 4.33 | 4.74 | 4.58 |

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