



W. P. Carey (WPC)

Updated December 3rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$77	5 Year CAGR Estimate:	4.6%	Market Cap:	\$14 B
Fair Value Price:	\$62	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	12/28/21 ¹
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	01/15/22 ²
Dividend Yield:	5.5%	5 Year Price Target	\$74	Years Of Dividend Growth:	23
Dividend Risk Score:	C	Retirement Suitability Score:	A	Last Dividend Increase:	0.2%

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 third quarter earnings results on October 29. The trust reported that its revenues totaled \$321 million during the quarter, which was 8% more than the revenues that W. P. Carey generated during the previous year's period. Revenues came in below the analyst consensus estimate, missing it by \$2 million.

During the third quarter the trust was more profitable than what the analyst community expected, as funds-from-operations came in at \$1.24 on a per-share basis, which was \$0.08 more than the analyst consensus. Funds-from-operations were up by 8% on a per-share basis compared to the previous year's quarter.

W. P. Carey has affirmed 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. W.P. Carey has raised its dividend by 0.2%, to \$1.052 this fall.

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	\$4.21	\$4.65
Shares³	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

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/FFO	8.7	12.4	13.4	12.9	12.7	12.2	12.4	12.0	15.8	15.2	15.5	12.5
Avg. Yld.	5.6%	5.2%	5.2%	5.7%	6.0%	6.2%	6.1%	6.3%	5.3%	6.0%	5.5%	6.3%

W. P. Carey's share price has been relatively flat since our last update but shares trade well above 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%	84.5%	78.6%

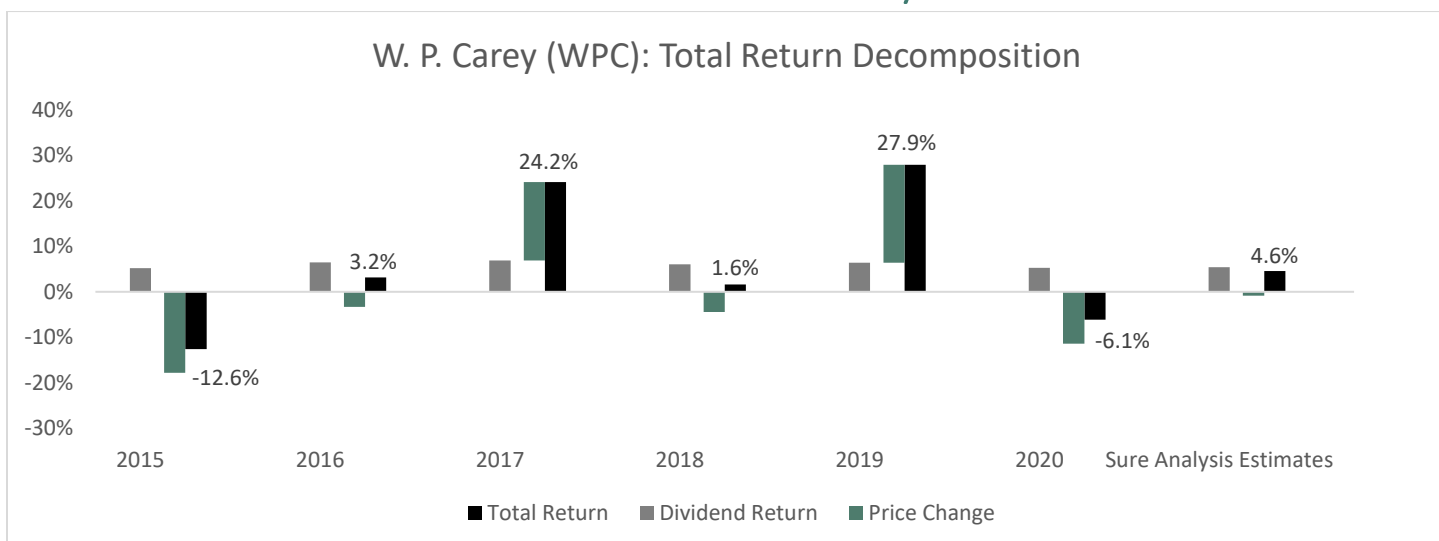
W. P. Carey has grown its dividend very regularly during the last decade. There has not been a dividend cut or dividend freeze during that time frame. The dividend payout ratio is high, as the REIT is paying out more than 80% of its funds from operations via dividends this year. We still believe that 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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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	14,183	14,061	14,708
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.

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