Lexington Realty Trust (LXP)

Updated May 9th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$11	**5 Year CAGR Estimate:**	2.3%	**Market Cap:**	$3.4 B
Fair Value Price:	$9	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	06/29/2022
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date[2]:**	07/15/2022
Dividend Yield:	4.2%	**5 Year Price Target:**	$10	**Years of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 98% 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 $3.4 billion.

On May 5th, LXP released first quarter 2022 results for the period ending March 31st, 2022. The trust announced adjusted funds from operations (AFFO) of $0.16 per share for the quarter, down 27% from 2021's $0.16 per share.

In the first quarter, the trust completed 2.3 million square feet of new leases and lease extensions, which increased industrial base and cash base rents by 27.7% and 18.1%, respectively. Additionally, the trust acquired two warehouse/distribution properties for a combined purchase price of $72 million. Lexington also invested nearly $69 million in five ongoing development projects.

At quarter end, the trust had leverage of 6.3x net debt to adjusted EBITDA. The trust has successfully increased their industrial exposure to 98% of the portfolio, with the goal to completely transition the portfolio to 100% industrial. Presently, the trust's stabilized portfolio is 99.4% leased.
Leadership provided 2022 earnings guidance, and is expecting to generate 2022 AFFO of $0.64 to $0.68 per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	$0.98	$1.02	$1.11	$1.10	$1.14	$0.97	$0.96	$0.80	$0.76	$0.78	***$0.66***	***$0.77***
DPS	$0.55	$0.62	$0.68	$0.68	$0.69	$0.70	$0.71	$0.41	$0.42	$0.43	***$0.48***	***$0.50***
Shares[3]	179.7	209.8	229.4	233.8	237.7	241.5	240.8	237.9	268.2	287.4	***290.0***	***320.0***

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 2.5% and 7.3% per year on average. Additionally, the dividend has also shrunk over the long-term, and today it is still below its 2012 level. Despite this, with the trust's focus on transforming the REIT into a 100% industrial REIT, we estimate the trust can grow AFFO by 3.0% annually in the intermediate 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 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.

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[1] Estimate
[2] Estimate
[3] In thousands

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	9.2	11.4	9.8	8.4	8.3	10.5	8.8	12.2	13.9	16.4	**17.3**	***13.5***
Avg. Yld.	5.5%	5.0%	5.9%	7.4%	7.4%	6.8%	8.4%	6.2%	4.0%	3.4%	**4.2%**	***4.9%***

The current P/AFFO of 17.3 based on 2022's estimated AFFO is a steep premium to the 5-year and 10-year averages of 10.9 and 12.4. 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 place our fair value estimate at 13.5 times AFFO, which implies the potential for a valuation headwind. We provide a valuation credit due to the demand and attractiveness for industrial properties post-pandemic.

Safety, Quality, Competitive Advantage, & Recession Resiliency

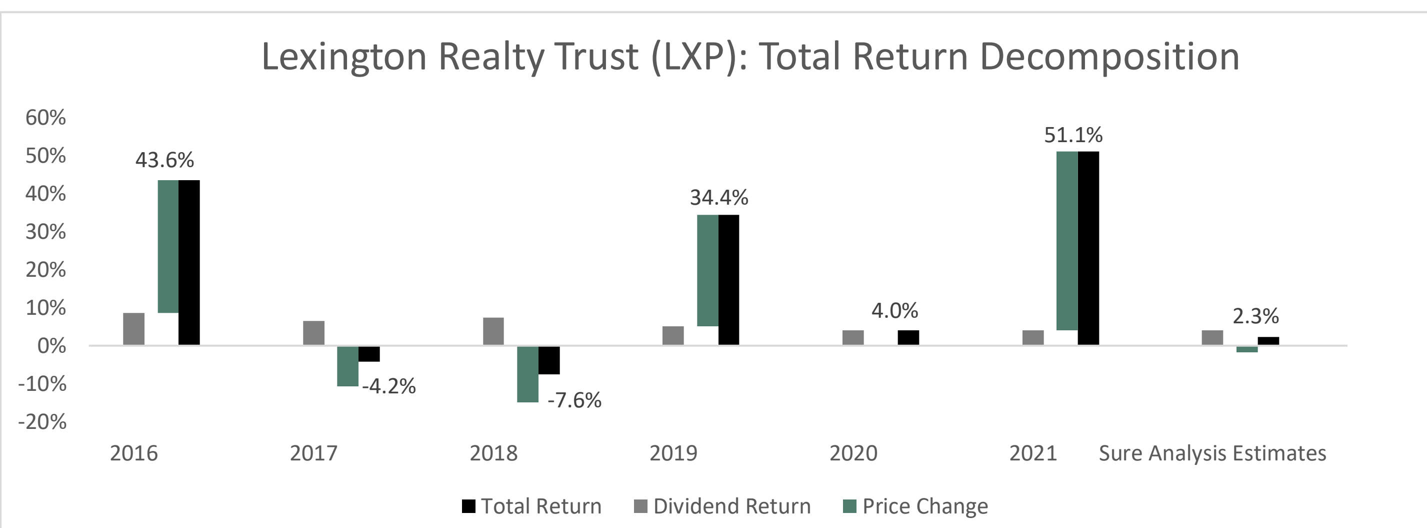
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	56%	61%	61%	62%	60%	72%	74%	52%	56%	55%	***73%***	***66%***

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 129% of our estimated fair value, which implies a potential valuation headwind to total returns. Overall, we expect 2.3% in annualized total returns and thus rate LXP a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	297	361	424	431	429	393	397	326	330	344
Gross Profit	113	148	205	208	216	170	186	136	127	120
Gross Margin	38.2%	41.1%	48.4%	48.3%	50.3%	43.2%	46.9%	41.8%	38.4%	34.7%
SG&A Exp.	24	28	28	29	31	34	32	31	30	35
D&A Exp.	172	184	167	167	170	178	172	154	168	183
Operating Profit	90	120	177	179	185	135	154	106	97	84
Op. Margin	30.2%	33.2%	41.8%	41.5%	43.1%	34.5%	38.9%	32.4%	29.2%	24.4%
Net Profit	180	2	93	112	96	86	227	280	183	383
Net Margin	60.7%	0.5%	22.0%	25.9%	22.3%	21.8%	57.3%	85.9%	55.5%	111.2%
Free Cash Flow	114	157	197	216	235	213	202	174	185	205

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,418	3,772	3,778	3,808	3,441	3,553	2,954	3,180	3,493	4,006
Cash & Equivalents	34	77	191	93	87	108	169	123	179	191
Acct Receivable	7	30	68	95	39	58	62	70	70	4
Goodwill & Intang.	686	762	706	693	597	599	420	410	409	190
Total Liabilities	2,085	2,233	2,269	2,346	2,029	2,212	1,607	1,456	1,502	1,682
Accounts Payable	70	40	38	41	60	39	31	30	55	78
Long-Term Debt	1,749	1,927	1,964	2,055	1,734	1,942	1,365	1,185	1,214	1,369
Total Equity	1,063	1,422	1,392	1,346	1,299	1,230	1,236	1,611	1,877	2,197
D/E Ratio	1.34	1.27	1.32	1.43	1.24	1.47	1.03	0.69	0.62	0.60

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.6%	0.0%	2.5%	2.9%	2.6%	2.4%	7.0%	9.1%	5.5%	10.2%
Return on Equity	19.4%	0.1%	6.6%	8.2%	7.2%	6.8%	18.4%	19.7%	10.5%	18.8%
ROIC	6.2%	0.0%	2.7%	3.2%	2.9%	2.7%	7.6%	10.0%	6.0%	11.1%
Shares Out.	179.7	209.8	229.4	233.8	237.7	241.5	240.8	237.9	268.2	287.4
Revenue/Share	1.65	1.72	1.85	1.84	1.81	1.63	1.65	1.37	1.23	1.20
FCF/Share	0.63	0.75	0.86	0.92	0.99	0.88	0.84	0.73	0.69	0.71

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