



Realty Income (O)

Updated May 16th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	8.7%	Market Cap:	\$41B
Fair Value Price:	\$71	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/28/22
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	06/15/22
Dividend Yield:	4.4%	5 Year Price Target	\$87	Years Of Dividend Growth:	26
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Realty Income is a retail real estate focused REIT that has become famous for its successful dividend growth history and monthly dividend payments. Today, the trust owns more than 4,000 properties. Realty Income owns retail properties that are not part of a wider retail development (such as a mall), but instead are standalone properties. This means that the properties are viable for many different tenants, including government services, healthcare services, and entertainment. Realty Income was founded in 1969 and is headquartered in San Diego.

Realty Income announced its first quarter earnings results on May 4. The trust reported that it generated revenues of \$810 million during the quarter, which was 82% more than the revenues that Realty Income generated during the previous year's quarter. Realty investments into new properties and its acquisition of VREIT that closed in late 2021 impacted the year-over-year comparison to a large degree.

Realty Income's funds-from-operations rose substantially versus the prior year's quarter, although AFFO-per-share growth was lower, due to share issuance. Realty Income nevertheless managed to generate funds-from-operations-per-share of \$0.98 during the quarter. Realty Income expects that its results during 2022 will represent a new record, as funds from operations are forecasted to come in at ~\$3.97 on a per-share basis during fiscal 2022. Realty Income's acquisition of VREIT, which closed last November, is responsible for the majority of the forecasted growth in this year's results, despite the dilution that was caused by the shares that were issued for the takeover.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFOPS	\$2.06	\$2.41	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.30	\$3.39	\$3.59	\$3.97	\$4.83
DPS	\$1.77	\$2.15	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.72	\$2.80	\$2.82	\$2.96	\$3.52
Shares¹	133	207	225	250	260	284	299	330	355	355	565	600

Realty Income does not generate overly high funds-from-operations growth rates on a per-share basis, but the growth that the REIT is experiencing has been very steady. Adjusted FFO-per-share grew by 6% annually between 2009 and 2019, which is a very solid result for a REIT, as those are not growth investments primarily.

Realty Income generates its growth through growing rents at existing locations, via contracted rent increases or by leasing properties to new tenants at higher rates, but also by acquiring new properties. Management invested about \$2.1 billion in new properties during 2020, and another \$6.4 billion during 2021. Realty Income expects to increase its investments in international markets during the next couple of years. It made a first deal in the UK in 2019 and plans to do more such deals in the future when it finds attractive targets. These acquisitions will help drive profits in the long run, although they may not pay off immediately, as the issuance of new shares dilutes shareholders in the near term.

Realty Income's properties are relatively Amazon-proof, as the REIT owns standalone properties that can be used as cinemas, fitness centers, pharmacies, dollar stores, etc. Realty Income's properties are in demand and will likely remain so. The occupancy rate across the portfolio is around 99%, and tenants generally report high rent coverage ratios.

¹ In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/AFFO	19.4	15.4	18.7	19.0	19.8	18.7	19.7	22.4	18.3	20.1	17.1	18.0
Avg. Yld.	4.5%	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.7%	4.5%	3.9%	4.4%	4.0%

Realty Income has been a higher-quality retail REIT for many years. The trust's strong track record of dividend growth, as well as its solid operational performance, even during the last financial crisis, are reasons for its above-average valuation. Shares currently look slightly undervalued, although shares have risen slightly since our last update. We believe that multiple changes could pose a small tailwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	85.9%	89.2%	85.2%	82.8%	83.0%	82.9%	82.8%	82.4%	82.6%	78.6%	74.6%	72.8%

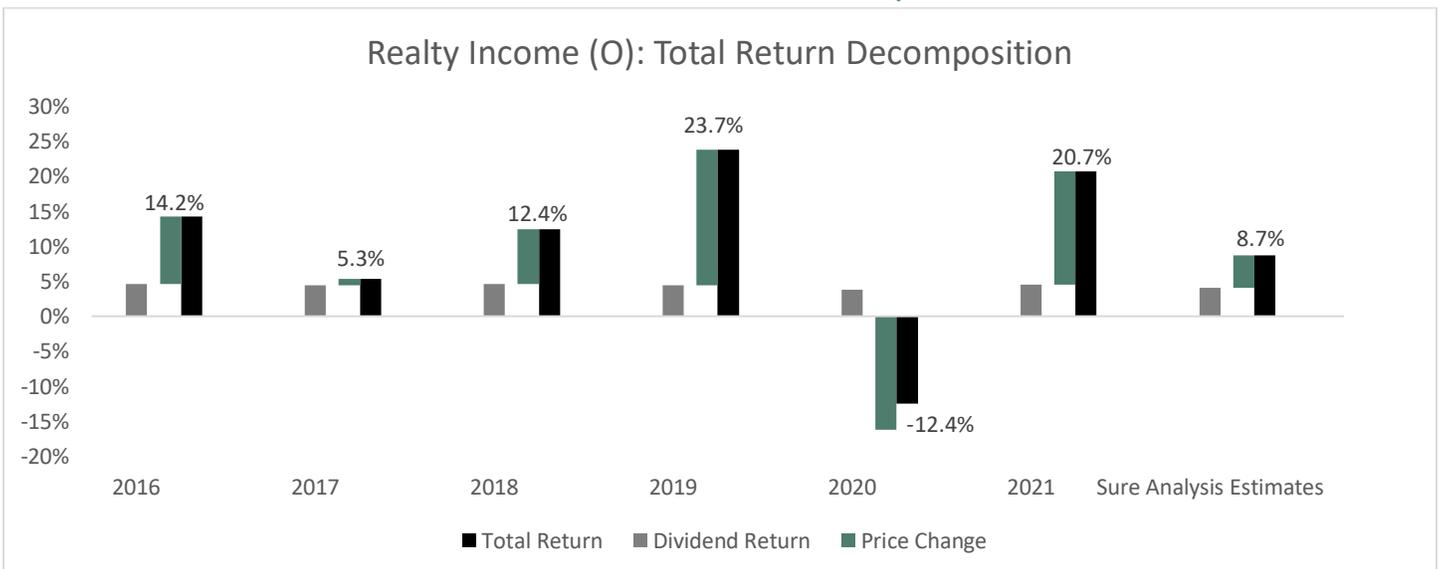
Realty Income has a relatively high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historical range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend looks sustainable, despite the fact that Realty Income pays out around 80% of its funds-from-operations to its owners in the form of dividends.

Realty Income's most important competitive advantage is its world-class management team that has successfully guided the trust in the past. Management is highly adept at finding attractive investment opportunities while also growing rents from existing properties, which has been very profitable for its shareholders. Due to the focus on standalone properties that can be used in many different ways, Realty Income is relatively safe from the so-called retail apocalypse.

Final Thoughts & Recommendation

Realty Income stands out from other retail REITs thanks to its very consistent dividend and earnings growth track record. The trust is well-recognized among income investors due to making monthly dividend payments. At the current price, Realty Income does offer an attractive yield of 4.4%, and Realty Income is trading marginally below our fair value estimate. Due to its solid forecasted total returns we rate Realty Income a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	485	780	934	1,023	1,103	1,216	1,328	1,488	1,647	2,080
Gross Profit	463	741	880	968	1,040	1,146	1,262	1,400	1,542	1,947
Gross Margin	95.6%	95.0%	94.2%	94.6%	94.3%	94.3%	95.0%	94.0%	93.6%	93.6%
SG&A Exp.	38	57	51	49	52	58	84	66	73	97
D&A Exp.	148	307	375	409	450	499	540	594	677	898
Operating Profit	278	378	454	509	538	589	638	739	792	952
Operating Margin	57.3%	48.4%	48.6%	49.8%	48.8%	48.5%	48.0%	49.7%	48.1%	45.8%
Net Profit	159	246	271	284	316	319	364	436	395	359
Net Margin	32.8%	31.5%	29.0%	27.7%	28.6%	26.2%	27.4%	29.3%	24.0%	17.3%
Free Cash Flow	326	519	628	694	800	876	941	1,069	1,116	1,322
Income Tax	1	2	3	3	3	6	5	6	15	32

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5429	9924	11013	11845	13153	14058	15260	18555	20740	43138
Cash & Equivalents	5	10	4	40	9	7	10	54	824	259
Accounts Receivable	22	39	64	82	105	120	145	182	286	427
Goodwill & Int. Ass.	259	951	1,055	1,050	1,097	1,210	1,214	1,508	1,725	8,952
Total Liabilities	3,017	4,503	5,372	5,292	6,366	6,667	7,140	8,751	9,723	18,008
Long-Term Debt	2,911	4,225	4,999	4,889	5,906	6,178	6,575	7,978	8,902	15,555
Shareholder's Equity	1,803	4,776	5,218	6,136	6,371	7,372	8,089	9,774	10,985	25,053
LTD/E Ratio	1.21	0.78	0.89	0.75	0.87	0.84	0.81	0.82	0.81	0.62

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.2%	3.2%	2.6%	2.5%	2.5%	2.3%	2.5%	2.6%	2.0%	1.1%
Return on Equity	8.6%	7.5%	5.4%	5.0%	5.0%	4.6%	4.7%	4.9%	3.8%	2.0%
ROIC	3.3%	3.3%	2.7%	2.6%	2.6%	2.4%	2.6%	2.7%	2.1%	1.2%
Shares Out.	133	207	225	250	260	284	299	330	355	355
Revenue/Share	3.65	4.07	4.27	4.33	4.32	4.44	4.58	4.71	4.77	5.02
FCF/Share	2.46	2.71	2.87	2.94	3.13	3.20	3.24	3.38	3.23	3.19

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

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