



VICI Properties (VICI)

Published August 29th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	7.1%	Market Cap:	\$32.4 B
Fair Value Price:	\$29	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	9/22/2022 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	10/6/2022
Dividend Yield:	4.2%	5 Year Price Target	\$39	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

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 43 gaming facilities comprising 122 million square feet, approximately 58,700 hotel rooms and more than 450 restaurants, bars and nightclubs. It has a market capitalization of \$32.4 billion. Caesars Entertainment generates 63% 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.

On May 3rd, 2022, VICI Properties acquired MGM Growth Properties (MGP) for \$17.2 billion. VICI Properties now owns 10 properties on the Las Vegas Strip and thus it has become the largest experiential REIT, with enhanced diversification. It also received investment credit rating and thus executed the largest bond offering in REIT history. Moreover, it was added to the S&P 500 in June and thus became the fastest REIT to get from IPO to S&P 500 inclusion.

In late July, VICI Properties reported (7/27/22) financial results for the second quarter of fiscal 2022. The REIT grew its revenue 29% over last year's quarter and its funds from operations (FFO) per share 4% 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. The hefty issuance of new shares, which has resulted from record acquisitions in 2021-2022, is weighing on results this year. Nevertheless, thanks to positive business trends, the REIT affirmed its guidance for FFO per share of \$1.89-\$1.92.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	---	---	---	---	---	\$0.19 ²	\$1.43	\$1.24	\$1.64	\$1.82	\$1.90	\$2.54
DPS	---	---	---	---	---	---	\$1.00	\$1.14	\$1.26	\$1.38	\$1.44	\$1.88
Shares³	---	---	---	---	---	228	367	439	542	637	900	1500

VICI Properties has proved markedly resilient to the pandemic. Even better, the pandemic has subsided this year 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. It acquired \$4.6 billion of properties in 2020 and announced \$21.3 billion of acquisitions and investments in 2021, with a weighted-average initial yield of 5.9%. The acquisition of MGM Growth Properties, whose value is approximately equal to the market cap of VICI Properties before the deal, is a major acquisition. 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 8.4% average annual growth rate achieved in the last three years but we prefer to be somewhat conservative due to the short history of the REIT.

¹ Estimated date.

² Only includes October-December 2017.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg P/FFO	---	---	---	---	---	---	14.2	18.0	13.6	16.2	17.9	15.5
Avg. Yld.	---	---	---	---	---	---	4.9%	5.1%	5.7%	4.7%	4.2%	4.8%

VICI Properties is trading at a P/FFO ratio of 17.9, which is higher than its 3-year average P/FFO ratio of 15.5. If the stock trades at its average valuation level in five years, it will incur a -2.8% annualized drag due to its P/FFO contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	69.9%	91.9%	76.8%	75.8%	75.8%	74.0%

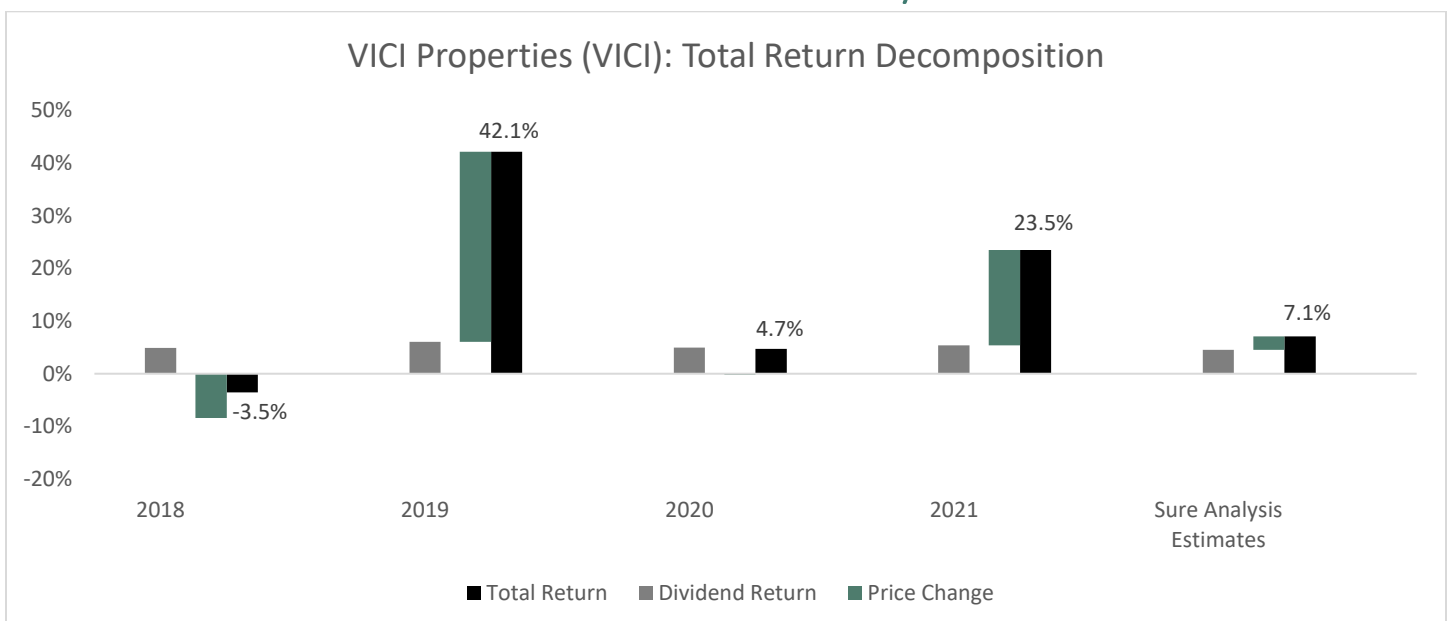
VICI Properties has nearly quadrupled its share count during its short history. This is a point of concern, but the REIT has grown its FFO at a higher rate and thus it has grown its FFO per share. It is also offering a 4.2% dividend, with a reasonable payout ratio of 76%, and it does not have debt maturities until 2024. Therefore, its dividend can be considered safe in the absence of a severe downturn.

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. A risk factor is the strong dependence on the performance of Caesars Entertainment, which generates 63% of the rental income of VICI Properties. Due to 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 resilient to the pandemic while it also has promising growth prospects, including its recent acquisition of MGP. The stock has rallied 13% since our last research report, in May, but it can still offer a 7.1% average annual return over the next five years thanks to 6.0% growth of FFO per share and its 4.2% dividend, partly offset by a -2.8% valuation headwind. We lower our rating from “buy” to “hold” but remain positive on the prospects of the REIT.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	19	18	19	201	898	895	1,226	1,510
Gross Profit	---	---	5	5	5	168	799	876	1,192	1,461
Gross Margin	---	---	25.6%	25.8%	26.9%	83.2%	89.0%	97.9%	97.3%	96.8%
SG&A Exp.	---	---	2	2	2	11	24	25	31	33
D&A Exp.	---	---	3	3	3	3	4	4	4	3
Operating Profit	---	---	0	0	0	153	771	847	913	1,444
Op. Margin	---	---	0.2%	0.1%	0.0%	76.1%	85.8%	94.7%	74.5%	95.7%
Net Profit	---	---	0	0	---	43	524	546	892	1,014
Net Margin	---	---	0.0%	0.0%	0.0%	21.2%	58.3%	61.0%	72.8%	67.2%
Free Cash Flow	---	---	3	2	2	130	496	671	881	873

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	---	92	90	9,740	11,333	13,266	17,064	17,597
Cash & Equivalents	---	---	---	0	1	184	578	1,102	316	740
Accounts Receivable	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	---	---	---	7	6	4,963	4,432	5,217	7,570	5,410
Accounts Payable	---	---	---	0	0	5	1	1	1	---
Long-Term Debt	---	---	---	0	0	4,786	4,122	4,792	6,766	4,695
Shareholder's Equity	---	---	---	85	84	4,691	6,817	7,965	9,416	12,108
LTD/E Ratio	---	---	---	---	---	1.02	0.60	0.60	0.72	0.39

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	---	---	0.9%	5.0%	4.4%	5.9%	5.9%
Return on Equity	---	---	---	---	---	1.8%	9.1%	7.4%	10.3%	9.4%
ROIC	---	---	---	---	---	0.9%	5.1%	4.6%	6.1%	6.1%
Shares Out.	---	---	---	---	---	228	367	439	542	637
Revenue/Share	---	---	0.05	0.05	0.05	0.61	2.44	2.04	2.40	2.62
FCF/Share	---	---	0.01	0.01	0.01	0.40	1.35	1.53	1.72	1.51

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

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