



# VICI Properties (VICI)

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## Key Metrics

|                             |      |  |       |                                  |                         |
|-----------------------------|------|--|-------|----------------------------------|-------------------------|
| <b>Current Price:</b>       | \$32 | <b>5 Year CAGR Estimate:</b>               | 8.7%  | <b>Market Cap:</b>               | \$30.9 B                |
| <b>Fair Value Price:</b>    | \$29 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 12/21/2022 <sup>1</sup> |
| <b>% Fair Value:</b>        | 109% | <b>5 Year Valuation Multiple Estimate:</b> | -1.6% | <b>Dividend Payment Date:</b>    | 1/5/2023                |
| <b>Dividend Yield:</b>      | 4.9% | <b>5 Year Price Target</b>                 | \$39  | <b>Years Of Dividend Growth:</b> | 4                       |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                   | 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 \$30.9 billion. Caesars Entertainment generates ~40% 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 3<sup>rd</sup>, 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 October, VICI Properties reported (10/27/22) results for the third quarter of fiscal 2022. It doubled its revenue over last year’s quarter and grew its funds from operations (FFO) per share 8%, mostly thanks to the acquisition of MGM Growth properties. The REIT has proved resilient to the pandemic. 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 narrowed its guidance for FFO per share from \$1.89-\$1.92 to \$1.91-\$1.92 and raised its dividend by 8%.

## Growth on a Per-Share Basis

| Year                      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017                | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|------|------|------|------|------|---------------------|--------|--------|--------|--------|---------------|---------------|
| <b>FFO</b>                | ---  | ---  | ---  | ---  | ---  | \$0.19 <sup>2</sup> | \$1.43 | \$1.24 | \$1.64 | \$1.82 | <b>\$1.90</b> | <b>\$2.54</b> |
| <b>DPS</b>                | ---  | ---  | ---  | ---  | ---  | ---                 | \$1.00 | \$1.14 | \$1.26 | \$1.38 | <b>\$1.56</b> | <b>\$2.04</b> |
| <b>Shares<sup>3</sup></b> | ---  | ---  | ---  | ---  | ---  | 228                 | 367    | 439    | 542    | 637    | <b>964</b>    | <b>2000</b>   |

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.

<sup>1</sup> Estimated date.

<sup>2</sup> Only includes October-December 2017.

<sup>3</sup> In millions.

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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 | <b>16.8</b> | <b>15.5</b> |
| Avg. Yld. | ---  | ---  | ---  | ---  | ---  | ---  | 4.9% | 5.1% | 5.7% | 4.7% | <b>4.9%</b> | <b>5.2%</b> |

VICI Properties is trading at a P/FFO ratio of 16.8, 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 -1.6% 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% | <b>82.1%</b> | <b>80.2%</b> |

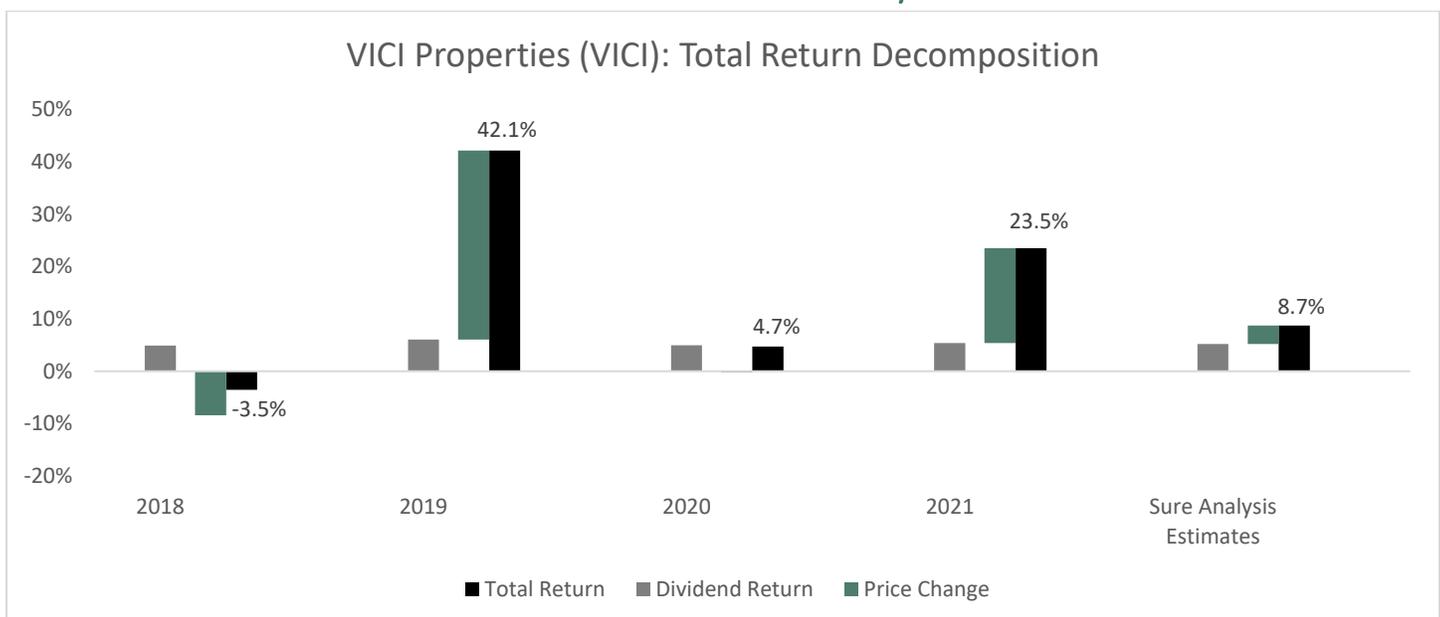
VICI Properties has more than quadrupled its share count during its short history. This is a point of concern, but the REIT has grown its FFO at a higher rate and thus it has grown its FFO per share. It is also offering a 4.9% dividend, with a payout ratio of 82%, and it does not have debt maturities until 2024. Despite the elevated payout ratio, the dividend can be considered safe in the absence of a severe downturn thanks to the growth prospects of the REIT.

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 ~40% 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 outperformed the S&P 500 by a wide margin this year (+7% vs. -19%) but it can still offer an 8.7% average annual return over the next five years thanks to 6.0% growth of FFO per share and its 4.9% dividend, partly offset by a -1.6% valuation headwind. It receives a hold rating.

## 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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