Lexington Realty Trust (LXP)

Updated February 16th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$11	**5 Year CAGR Estimate:**	5.4%	**Market Cap:**	$3.1 B
Fair Value Price:	$9	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date[1]:**	03/30/2023
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date[2]:**	04/18/2023
Dividend Yield:	4.5%	**5 Year Price Target:**	$12	**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 99% 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 $3.1 billion.

On February 16th, Lexington Realty reported fourth quarter and full year 2022 results for the period ending December 31st, 2022. The trust announced adjusted funds from operations (AFFO) of $0.17 per share for the quarter, down one penny from the prior year quarter's $0.18 per share.

In the fourth quarter, the trust completed 0.6 million square feet of new leases and lease extensions, which increased industrial base and cash base rents by 38.1% and 42.6%, respectively. Additionally, the trust completed the construction of a 0.8 million square foot warehouse/distribution facility in Greenville-Spartanburg, South Carolina. Lexington also invested nearly $53 million in six ongoing development projects. Presently, the trust's stabilized industrial portfolio is 99.5% leased. At quarter end, the trust had leverage of 6.4X net debt to adjusted EBITDA.
Leadership initiated 2023 guidance, and is expecting to generate 2023 AFFO of $0.66 to $0.70 per share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	$1.02	$1.11	$1.10	$1.14	$0.97	$0.96	$0.80	$0.76	$0.78	$0.67	***$0.68***	***$0.89***
DPS	$0.62	$0.68	$0.68	$0.69	$0.70	$0.71	$0.41	$0.42	$0.43	$0.48	***$0.50***	***$0.53***
Shares[3]	209.8	229.4	233.8	237.7	241.5	240.8	237.9	268.2	287.4	282.5	***280.0***	***300.0***

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 4.6% and 7.1% 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 5.5% 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

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	11.4	9.8	8.4	8.3	10.5	8.8	12.2	13.9	16.4	17.7	***16.5***	***13.5***
Avg. Yld.	5.0%	5.9%	7.4%	7.4%	6.8%	8.4%	6.2%	4.0%	3.4%	3.9%	***4.5%***	***4.4%***

The current P/AFFO of 16.5 based on 2023's estimated AFFO is a premium to the 5-year and 10-year averages of 13.8 and 11.7. 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

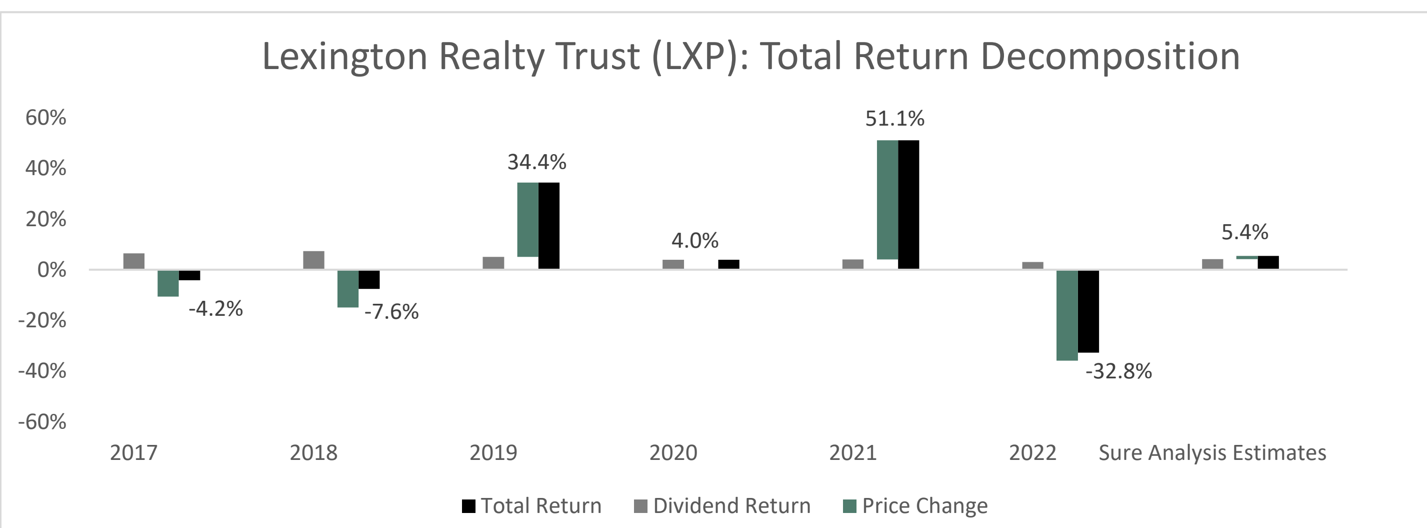
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	61%	61%	62%	60%	72%	74%	52%	56%	55%	72%	***74%***	***59%***

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 122% of our estimated fair value, which implies a potential valuation headwind to total returns. Overall, we expect 4.5% in annualized total returns and thus rate LXP as a hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	361	424	431	429	393	397	326	330	344	321
Gross Profit	148	205	208	216	170	186	136	127	120	86
Gross Margin	41.1%	48.4%	48.3%	50.3%	43.2%	46.9%	41.8%	38.4%	34.7%	26.7%
SG&A Exp.	28	28	29	31	34	32	31	30	35	39
D&A Exp.	184	167	167	170	178	172	154	168	183	187
Operating Profit	120	177	179	185	135	154	106	97	84	47
Op. Margin	33.2%	41.8%	41.5%	43.1%	34.5%	38.9%	32.4%	29.2%	24.4%	14.6%
Net Profit	2	93	112	96	86	227	280	183	383	114
Net Margin	0.5%	22.0%	25.9%	22.3%	21.8%	57.3%	85.9%	55.5%	111.2%	35.4%
Free Cash Flow	157	197	216	235	213	202	174	185	205	162

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,772	3,778	3,808	3,441	3,553	2,954	3,180	3,493	4,006	4,054
Cash & Equivalents	77	191	93	87	108	169	123	179	191	54
Acct Receivable	30	68	95	39	58	62	70	70	4	3.03
Goodwill & Intang.	762	706	693	597	599	420	410	409	190	155
Total Liabilities	2,233	2,269	2,346	2,029	2,212	1,607	1,456	1,502	1,682	1,663
Accounts Payable	40	38	41	60	39	31	30	55	78	74
Long-Term Debt	1,927	1,964	2,055	1,734	1,942	1,365	1,185	1,214	1,369	1,360
Total Equity	1,422	1,392	1,346	1,299	1,230	1,236	1,611	1,877	2,197	2,259
D/E Ratio	1.27	1.32	1.43	1.24	1.47	1.03	0.69	0.62	0.60	0.58

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.0%	2.5%	2.9%	2.6%	2.4%	7.0%	9.1%	5.5%	10.2%	2.8%
Return on Equity	0.1%	6.6%	8.2%	7.2%	6.8%	18.4%	19.7%	10.5%	18.8%	5.1%
ROIC	0.0%	2.7%	3.2%	2.9%	2.7%	7.6%	10.0%	6.0%	11.1%	3.1%
Shares Out.	209.8	229.4	233.8	237.7	241.5	240.8	237.9	268.2	287.4	282.5
Revenue/Share	1.72	1.85	1.84	1.81	1.63	1.65	1.37	1.23	1.20	1.14
FCF/Share	0.75	0.86	0.92	0.99	0.88	0.84	0.73	0.69	0.71	0.57

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