



Realty Income (O)

Updated February 27th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	9.4%	Market Cap:	\$43B
Fair Value Price:	\$70	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/28/23
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	03/15/23
Dividend Yield:	4.7%	5 Year Price Target	\$85	Years Of Dividend Growth:	26
Dividend Risk Score:	C	Retirement Suitability Score:	B	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 thousands of 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 recently announced its operating results for the three months and year ending on December 31, 2022. The net income available to common stockholders was \$227.3 million, or \$0.36 per share. The Normalized FFO (Funds From Operations) increased by 18.0% to \$1.05 per share, compared to the three months ended December 31, 2021. Additionally, AFFO (Adjusted Funds From Operations) increased by 6.4% to \$1.00 per share, compared to the same period in 2021. The company completed the Encore Transaction, acquiring the land and real estate assets of Encore Boston Harbor Resort and Casino from Wynn Resorts, Limited for \$1.7 billion.

Realty Income invested \$3.9 billion in 578 properties, including properties under development or expansion, with \$387.9 million invested in Europe, which includes the first investment in Italy for seven properties, totaling \$166.6 million. The company also announced the acquisition of up to 185 single-tenant retail and industrial properties from CIM Real Estate Finance Trust, Inc. for approximately \$894 million, expected to close in the first half of 2023. Moreover, the net debt to annualized pro forma adjusted EBITDAre was 5.3x. Realty Income raised \$2.2 billion from the sale of common stock, primarily through their At-The-Market (ATM) program, with a weighted average price of \$65.71. The company also issued \$750.0 million of senior unsecured notes due October 2032, with an effective semi-annual yield to maturity of approximately 3.93%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2027
AFFOPS	\$2.41	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.30	\$3.39	\$3.59	\$3.90	\$3.90	\$4.74
DPS	\$2.15	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.72	\$2.80	\$2.82	\$2.98	\$3.05	\$3.54
Shares¹	207	225	250	260	284	299	330	355	355	620	660	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, coming almost every year at a mid-single digits CAGR. As a result, the REIT has been able to grow its AFFO per share and its dividend per share for many years and is today a Dividend Aristocrat.

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

¹ In Millions

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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.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2027
P/AFFO	15.4	18.7	19.0	19.8	18.7	19.7	22.4	18.3	20.1	16.7	16.7	18.0
Avg. Yld.	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.7%	4.5%	3.9%	4.6%	4.7%	4.1%

Realty Income has been a high-quality retail REIT for many years. The trust's 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, as shares trade below historical norms. We believe that multiple changes could pose a small tailwind for total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	89%	85%	83%	83%	83%	83%	82%	83%	79%	76%	78%	75%

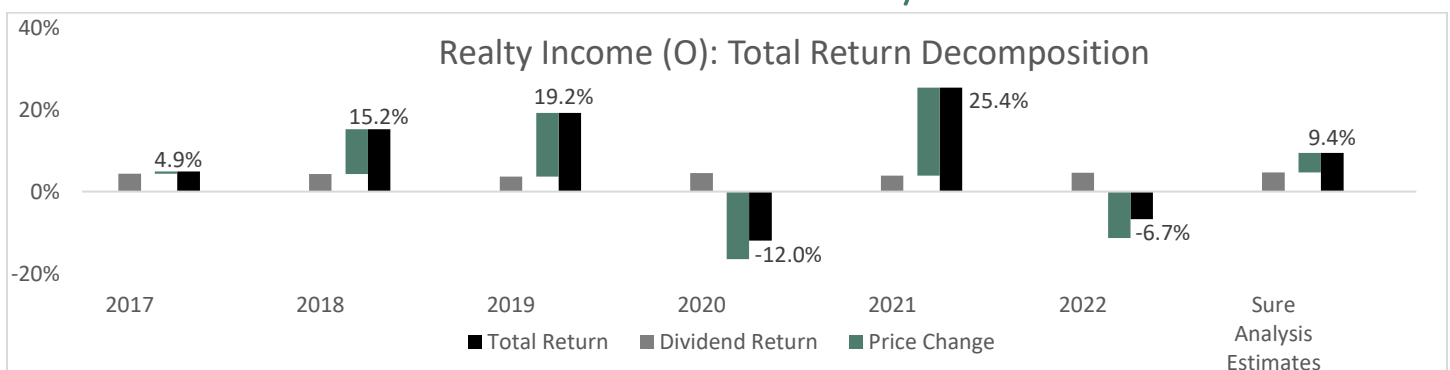
Realty Income has a relatively high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historical range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend looks sustainable, despite the fact that Realty Income pays out around 78% 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 4.7%, 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	780	934	1,023	1,103	1,216	1,328	1,488	1,647	2,080	3,344
Gross Profit	741	880	968	1,040	1,146	1,262	1,400	1,542	1,947	3,117
Gross Margin	95.0%	94.2%	94.6%	94.3%	94.3%	95.0%	94.0%	93.6%	93.6%	93.2%
SG&A Exp.	57	51	49	52	58	84	66	73	97	138
D&A Exp.	307	375	409	450	499	540	594	677	898	1,670
Operating Profit	378	454	509	538	589	638	739	792	952	1,309
Operating Margin	48.4%	48.6%	49.8%	48.8%	48.5%	48.0%	49.7%	48.1%	45.8%	39.1%
Net Profit	246	271	284	316	319	364	436	395	359	869
Net Margin	31.5%	29.0%	27.7%	28.6%	26.2%	27.4%	29.3%	24.0%	17.3%	26.0%
Free Cash Flow	519	628	694	800	876	941	1,069	1,116	1,322	2,564
Income Tax	2	3	3	3	6	5	6	15	32	45

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9924	11013	11845	13153	14058	15260	18555	20740	43138	49673
Cash & Equivalents	10	4	40	9	7	10	54	824	259	171
Accounts Receivable	39	64	82	105	120	145	182	286	427	568
Goodwill & Int. Ass.	951	1,055	1,050	1,097	1,210	1,214	1,508	1,725	8,952	8,900
Total Liabilities	4,503	5,372	5,292	6,366	6,667	7,140	8,751	9,723	18,008	20,830
Long-Term Debt	4,225	4,999	4,889	5,906	6,178	6,575	7,978	8,902	15,555	18,111
Shareholder's Equity	4,776	5,218	6,136	6,371	7,372	8,089	9,774	10,985	25,053	28,713
LTD/E Ratio	0.78	0.89	0.75	0.87	0.84	0.81	0.82	0.81	0.62	0.63

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.2%	2.6%	2.5%	2.5%	2.3%	2.5%	2.6%	2.0%	1.1%	1.9%
Return on Equity	7.5%	5.4%	5.0%	5.0%	4.6%	4.7%	4.9%	3.8%	2.0%	3.2%
ROIC	3.3%	2.7%	2.6%	2.6%	2.4%	2.6%	2.7%	2.1%	1.2%	2.0%
Shares Out.	207	225	250	260	284	299	330	355	355	620
Revenue/Share	4.07	4.27	4.33	4.32	4.44	4.58	4.71	4.77	5.02	5.46
FCF/Share	2.71	2.87	2.94	3.13	3.20	3.24	3.38	3.23	3.19	4.19

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

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