W. P. Carey (WPC)

Updated May 31st, 2023 by Jonathan Weber

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$15B
Fair Value Price:	$70	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	06/30/23[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	07/14/23[2]
Dividend Yield:	6.2%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	28
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

W.P. Carey is a commercial real estate focused REIT that operates two segments: real estate ownership and investment management. The REIT operates more than 1,200 single tenant properties on a net lease basis, across the US and Northern and Western Europe. W.P. Carey was founded more than 40 years ago and is headquartered in New York, NY.

For its fiscal first quarter, W. P. Carey reported that its revenues totaled $428 million, which was 23% more than the revenues that W. P. Carey generated during the previous year's period. Revenues came in well above the analyst consensus estimate, beating it by a strong $22 million.

During the first quarter, the trust was more profitable than what the analyst community expected, as funds-from-operations came in at $1.31 on a per-share basis, which was $0.04 more than the analyst consensus. Funds-from-operations were down by 3% on a per-share basis compared to the previous year's quarter.

W. P. Carey has updated its guidance for 2023, forecasting funds from operations in a range of $5.30 to $5.40 on a per-share basis, which means a small improvement versus 2022 at the midpoint of the guidance range. 2021 had been a recovery year for W.P. Carey, which saw the company get back to pre-pandemic levels of profitability, and 2022 was even better, with meaningful growth in adjusted funds from operations on a company-wide and per-share basis.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFOPS	$4.22	$4.81	$4.99	$5.12	$5.30	$5.41	$5.00	$4.60	$5.03	$5.29	***$5.35***	***$6.35***
DPS	$3.39	$3.69	$3.81	$3.90	$4.01	$4.09	$4.15	$4.18	$4.22	$4.24	***$4.27***	***$4.71***
Shares[3]	68	104	104	107	108	146	165	177	187	210	***215***	***240***

W. P. Carey generated FFO-per-share growth at a rate of 6% annually between 2009 and 2019, which is a very solid growth rate for a real estate investment trust, as these usually are low-growth vehicles. The growth rate has slowed down over the years, though, as W. P. Carey's FFO-per-share growth rate averaged just 3% between 2014 and 2018. FFOPS declined during the pandemic but improved on a year-over-year basis in 2021 and 2022.

W. P. Carey invests additional money into new properties continuously. Since 2012 the REIT invested more than $10 billion into new assets by either purchasing entire REITs or through asset/portfolio purchases. W. P. Carey can access debt markets at favorable rates, which lowers the trust's cost of capital, which then allows for improved investment spreads. Since W. P. Carey cannot finance these acquisitions with debt alone, and since the REIT does not retain a large portion of its cash flows, W. P. Carey issues new shares regularly. A factor that drives organic revenue growth is that the contracts W. P. Carey and the tenants sign include ongoing rent increases, which results in growing revenues even without new asset purchases. These growth factors should persist going forward, which is why W. P. Carey should be able to increase its profits over the coming years. Due to the defensive nature of its business, W.P. Carey remained profitable during the pandemic and was even able to raise its dividend.

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[1] Estimated date
[2] Estimated date
[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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	13.4	12.9	12.7	12.2	12.4	12.0	15.8	15.2	16.3	14.7	***12.9***	***13.0***
Avg. Yld.	5.2%	5.7%	6.0%	6.2%	6.1%	6.3%	5.3%	6.0%	5.1%	5.4%	***6.2%***	***5.7%***

W. P. Carey's share price has moved down since our last update, which has made shares cheaper. Right now, shares are trading for just below 13 times this year's expected funds from operations, which is relatively in line with the historic mean. The dividend yield is pretty high, at more than 6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	80.3%	76.7%	76.4%	76.2%	75.7%	75.6%	83.0%	90.9%	83.9%	80.2%	***79.8%***	***74.2%***

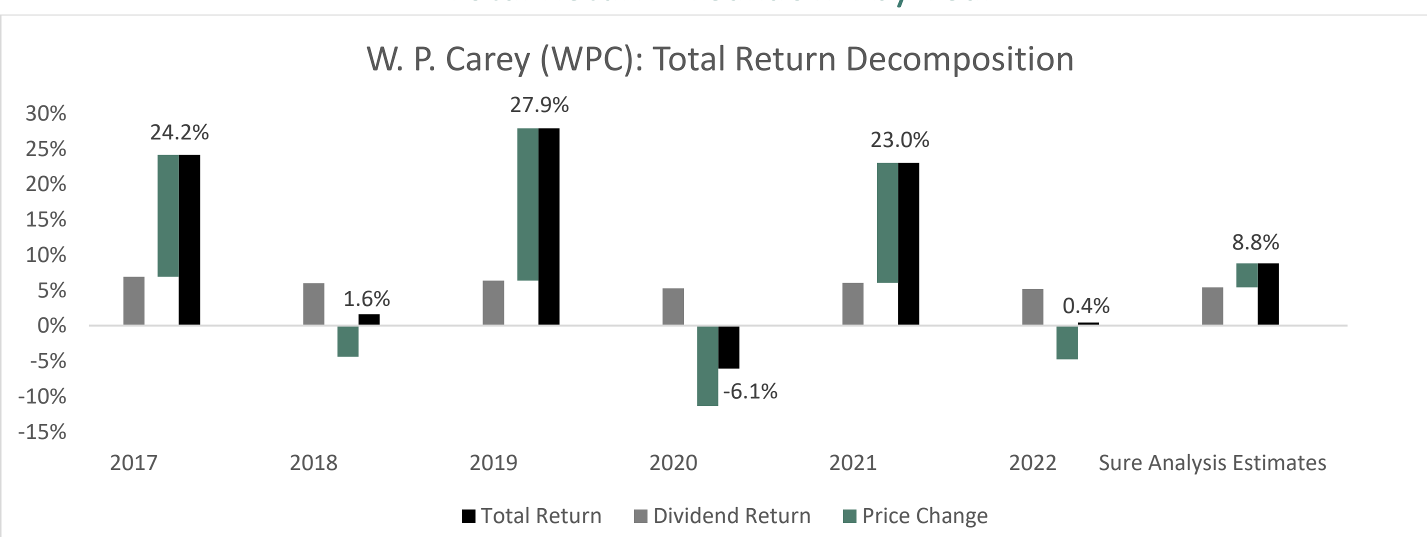
W. P. Carey has grown its dividend very regularly during the last decade. There has not been a dividend cut or dividend freeze during that time frame. The dividend payout ratio is high, as the REIT is paying out about 80% of its funds from operations via dividends this year. We still believe that the dividend is sustainable, especially as W. P. Carey did not have any problems financing its dividend during previous recessions.

W.P. Carey is quite recession-proof, as even during the last financial crisis the REIT managed to keep its profits stable. Due to diversification across industries, as well as geographically (65% US, 30% Europe, 5% other), W. P. Carey is not overly dependent on the progress of any single market, which makes the REIT a safer investment. This safety is underlined by long-lasting contracts, remarkably high occupancy rates of ~99%, considerable scale, and an investment grade credit rating. W. P. Carey is one of the biggest players in its industry, and its focus on the sale-and-lease-back-transactions niche markets means that it is unlikely that competitors or new market entrant will hurt its business.

Final Thoughts & Recommendation

W. P. Carey is a fundamentally strong low-risk REIT, and the trust has a very solid dividend growth track record. W. P. Carey is active in an attractive and non-cyclical market segment. The REIT has been weathering the pandemic relatively well and is forecasting ongoing growth in 2023 that will lift W.P. Carey's funds from operations-per-share further above pre-pandemic levels. Due to solid expected total returns, we rate the stock a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	490	908	938	942	848	886	1,233	1,209	1,332	1,479
Gross Profit	382	694	796	787	728	793	1,083	1,090	1,207	1,325
Gross Margin	78.0%	76.4%	84.8%	83.6%	85.8%	89.5%	87.9%	90.1%	90.7%	89.6%
SG&A Exp.	108	128	136	115	103	96	102	93	107	122
D&A Exp.	131	248	317	283	316	349	545	509	548	563
Operating Profit	152	329	387	396	371	405	534	554	625	700
Operating Margin	31.0%	36.2%	41.3%	42.1%	43.8%	45.8%	43.3%	45.8%	46.9%	47.3%
Net Profit	99	240	172	268	277	412	305	455	410	599
Net Margin	20.2%	26.4%	18.4%	28.4%	32.7%	46.5%	24.8%	37.7%	30.8%	40.5%
Free Cash Flow	194	375	500	547	521	509	812	802	926	1,004
Income Tax	1	18	38	3	3	14	26	(21)	28	28

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,679	8,648	8,742	8,454	8,231	14,183	14,061	14,708	15,481	18,102
Cash & Equivalents	118	199	157	155	162	218	196	249	165	168
Accounts Receivable	4	3	4	5	4	1	1	0	0	0
Goodwill & Int. Ass.	1,072	2,244	2,100	2,458	2,498	3,856	4,031	4,093	4,131	4,531
Total Liabilities	2,476	4,758	5,181	5,029	4,820	7,353	7,113	7,829	7,897	9,093
Accounts Payable	166	294	342	267	263	404	487	604	573	624
Long-Term Debt	2,067	4,089	4,480	4,441	4,265	6,379	6,054	6,696	6,792	7,878
Shareholder's Equity	1,904	3,751	3,427	3,302	3,192	6,824	6,942	6,877	7,582	8,994
LTD/E Ratio	1.09	1.09	1.31	1.35	1.34	0.93	0.87	0.97	0.90	0.88

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.1%	3.6%	2.0%	3.1%	3.3%	3.7%	2.2%	3.2%	2.7%	3.6%
Return on Equity	5.1%	8.5%	4.8%	8.0%	8.5%	8.2%	4.4%	6.6%	5.7%	7.2%
ROIC	2.3%	3.9%	2.2%	3.4%	3.6%	3.9%	2.3%	3.4%	2.9%	3.8%
Shares Out.	68	104	104	107	108	146	165	177	187	210
Revenue/Share	7.03	9.10	8.81	8.79	7.85	7.52	7.20	6.92	7.27	7.38
FCF/Share	2.78	3.76	4.69	5.11	4.82	4.33	4.74	4.58	5.06	5.01

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