Camden Property Trust (CPT)

Updated August 5th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	$109	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$11.6 B
Fair Value Price:	$110	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	09/29/23
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	10/17/23
Dividend Yield:	3.7%	**5 Year Price Target**	$140	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1993, and headquartered in Houston, Texas, Camden Property Trust is one of the largest publicly traded multifamily real estate companies in the United States. The company is structured as a Real Estate Investment Trust (REIT), owning, managing, and developing multifamily apartment communities. As of June 30th, 2023, Camden owned 177 properties containing 60,514 apartments. The $11.6 billion market cap company has about 1,650 employees, and generates around $1.40 billion in revenues annually.

On August 3rd, 2023, Camden reported Q2 results for the period ending June 30th, 2023. For the quarter, the company reported property revenue of $385.5 million, a 6.6% increase compared to Q2 2022. Higher revenues were primarily driven by same-property revenue growth, which came in at 6.1% as well as a higher number of owned properties. With same-property expenses growing by a lesser 5.8% during the period, same-property NOI (Net Operating Income) rose 6.2%.

Funds from Operations (FFO) totaled $184.0 million or $1.67 per share compared to $179.9 million or $1.64 per share in Q2 2022. Camden also marginally boosted its fiscal 2023, anticipating core FFO/share to land between $6.83 and $6.93 (up from $6.74 to $6.98 previously). We have utilized the midpoint of this range in our estimates, which is one cent higher compared to the previous outlook. It implies year-over-year growth of roughly 4%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$4.11	$4.29	$4.54	$4.64	$4.53	$4.77	$5.05	$4.90	$5.39	$6.59	***$6.88***	***$8.78***
DPS	$2.52	$2.64	$2.80	$2.95	$3.00	$3.08	$3.20	$3.29	$3.32	$3.76	***$4.00***	***$5.11***
Shares[2]	85.3	88.5	97.6	89.9	91.5	103.1	97.3	99.4	102.8	108.4	***109.4***	***115.0***

Note that we have presented FFO in the table above, as this better reflects the underlying earnings power of a REIT. Dating back to 2013, Camden has been able to grow both its dividend and FFO/share by compound annual growth rate of 4.5% and 5.4%, respectively. We are forecasting 5% annual growth over the intermediate-term – in-between these two historical marks – for a variety of reasons.

On the positive growth side, Camden is coming off some strong momentum in 2023. In addition, we are impressed by the resilience that the company demonstrated during the pandemic. Further, general economic growth over the long-term ought to help drive growth. At the same time, the recently acquired properties should lead to economies of scale, as proven by the robust NOI growth in the company's most recent results.

Offsetting these positive points is the idea that growth began to slow even before the pandemic, while rent growth prospects for residential properties have already started to cool off in the face of a tough macro environment. We are also cautious of the rising-rates environment, meaning Camden's financing is likely to become more expensive.

[1] Estimated dates based on past dividend dates.
[2] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	16.3	15.7	16.8	17.6	16.6	20.2	20.7	19.4	25.0	20.5	***15.8***	***16.0***
Avg. Yld.	3.8%	3.9%	3.7%	3.6%	3.7%	3.5%	3.1%	3.5%	2.5%	2.8%	***3.7%***	***3.6%***

Over the past decade, Camden has traded with an average price-to-FFO ratio of just under 19. With residential REITs likely to have a harder time than usual moving forward if the current macro environment persists, we have set our fair multiple at 16. At its current multiple of 15.8, the stock appears relatively fairly valued. Thus, we don't expect any notable valuation tailwinds/headwinds ahead. The dividend was cut during the Great Recession but has since recovered nicely. The company has increased each year since. This component ought to buoy investor returns over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	61%	62%	62%	64%	66%	65%	63%	67%	62%	57%	***58%***	***58%***

Camden has a competitive advantage in its position as one of the largest multifamily REITs in the U.S. Its scale and expertise allow it to leverage its experience across a wide portfolio of properties and actively pursue developments.

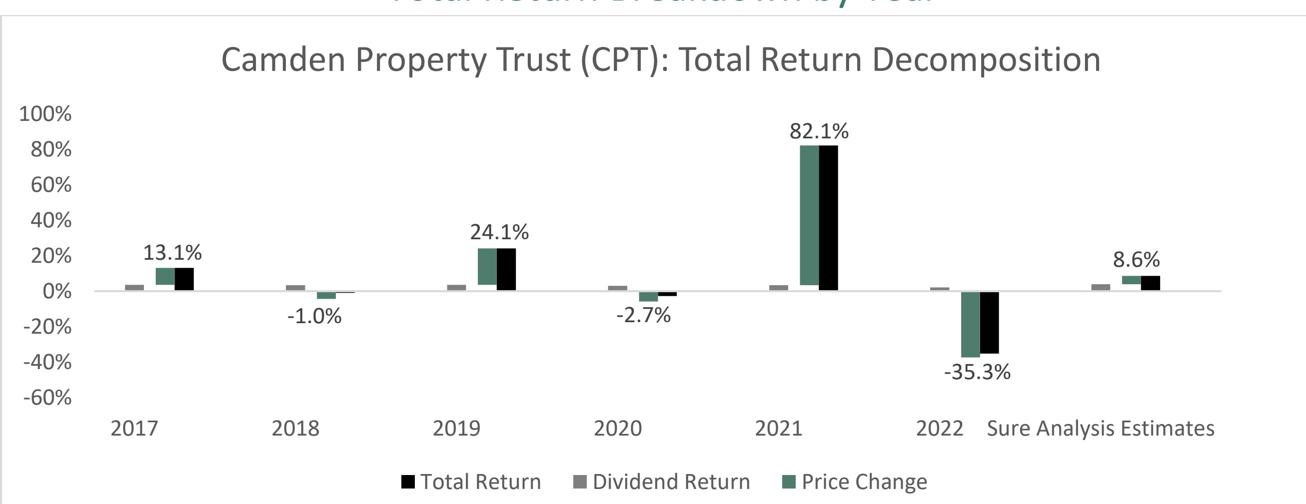
The company's FFO payout ratio has hovered in the 60% to 70% range for the last decade. We anticipate it will remain at slightly lower levels, with dividend growth tracking FFO growth over time. During the Great Recession, Camden posted FFO of $2.90, $1.68, $2.72, and $2.73 over the 2008 through 2011 stretch. Meanwhile, the dividend was cut from $2.80 down to $1.80 on an annual basis. This gives you some idea of the toll that recessions can take on the business, along with Camden's ability to bounce back. The company is holding up much better this time around, so far.

As of the most recent report, Camden held $9.0 billion in real estate and $9.3 billion in total assets against $4.3 billion in total liabilities. The company's net debt-to-adjusted EBITDA ratio equaled 4.2x, weakening from 4.4x last year.

Final Thoughts & Recommendation

Camden is a leading multifamily REIT with a solid operating history. The company posted a record FFO/share last year and should set a new one in fiscal 2023. Nevertheless, we remain prudent regarding its medium-term prospects due to a challenging residential market and rising interest rates. We are forecasting an 8.6% annual total return potential, driven by a 4% FFO/share growth, a 3.7% starting yield, and possibly soft valuation tailwinds. Shares earn a hold rating.

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	789	790	836	876	901	955	1028	1044	1144	1423
Gross Profit	503	505	535	565	572	611	662	649	727	894
Gross Margin	64%	64%	64%	64%	64%	64%	64%	62%	63.5%	62.8%
SG&A Exp.	56	69	67	70	72	74	76	71	80	60
D&A Exp.	222	222	241	250	264	301	336	---	421	577
Operating Profit	230	214	227	245	236	236	250	211	226	261
Operating Margin	29%	27%	27%	28%	26%	25%	24%	20%	19.8%	18.3%
Net Profit	336	292	249	820	196	156	220	124	304	654
Net Margin	43%	37%	30%	94%	22%	16%	21%	12%	26.6%	46.0%
Free Cash Flow	47	-79	11	100	136	145	148	---	149	295
Income Tax	2	2	2	2	1	1	1	2	2	3

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5632	6044	6038	6028	6174	6220	6749	7199	7977	9328
Cash & Equivalents	18	154	11	237	368	34	23	420	613	10
Accounts Receivable	28	26	25	24	24	23	22	20	19	13
Total Liabilities	2825	3087	3065	2856	2612	2782	3047	3682	3711	4271
Accounts Payable	113	157	133	138	128	147	172	176	192	211
Long-Term Debt	2531	2731	2725	2481	2205	2322	2524	3167	3170	3681
Shareholder's Equity	2739	2884	2896	3092	3483	3364	3629	3445	4167	4987
LTD/E Ratio	0.92	0.95	0.94	0.80	0.63	0.69	0.70	0.92	0.76	0.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.1%	5.0%	4.1%	13.6%	3.2%	2.5%	3.4%	1.8%	4.0%	7.6%
Return on Equity	12.7%	10.4%	8.6%	27.4%	6.0%	4.6%	6.3%	3.5%	8.0%	14.2%
ROIC	6.4%	5.3%	4.4%	14.4%	3.4%	2.7%	3.7%	1.9%	4.3%	8.1%
Shares Out.	88.5	88.5	89.5	89.9	92.5	95.4	99.4	99.4	102.8	108
Revenue/Share	$8.91	$8.93	$9.34	$9.75	$9.74	$10.01	$10.35	$10.50	$11.12	$13.13
FCF/Share	$0.54	-$0.89	$0.13	$1.11	$1.47	$1.52	$1.49	---	$1.45	$2.72

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