



Realty Income (O)

Updated August 23rd, 2023 by Samuel Smith

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	10.2%	Market Cap:	\$40B
Fair Value Price:	\$62	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	08/31/23
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	09/15/23
Dividend Yield:	5.4%	5 Year Price Target	\$76	Years Of Dividend Growth:	26
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Buy

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.

On August 2nd, 2023, Realty Income released its Q2 results. For the quarter ending June 30, 2023, the company reported net income available to common stockholders of \$195.4 million, equivalent to \$0.29 per share. Normalized FFO available to common stockholders was \$688.3 million, or \$1.02 per share, while AFFO available to common stockholders stood at \$671.7 million, or \$1.00 per share. The company invested \$3.1 billion in 710 properties and properties under development or expansion, yielding an initial weighted average cash lease yield of 6.9%. Realty Income raised \$2.2 billion from the sale of common stock through its ATM program, with a weighted average price of \$61.89 per share. It also issued \$400.0 million of 4.70% senior unsecured notes due December 2028 and \$600.0 million of 4.90% senior unsecured notes due July 2033. The company's Net Debt to Annualized Pro Forma Adjusted EBITDA ratio was 5.3x. In addition, Realty Income completed a sale-leaseback transaction with EG Group, involving 414 single-tenant convenience store properties for \$1.5 billion. Subsequent to June 30, 2023, the company issued senior unsecured notes and settled ATM forward agreements for approximately \$651.4 million in total expected net proceeds.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
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	\$3.07	\$3.54
Shares¹	208	225	251	260	284	304	334	373	591	661	708.8	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. Realty Income expects to increase its investments in international markets moving forward. It made a first deal in the UK in 2019 and plans to 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.

¹ 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	2027
P/AFFO	15.4	18.7	19.0	19.8	18.7	19.7	22.4	18.3	20.1	16.7	14.6	16.0
Avg. Yld.	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.7%	4.5%	3.9%	4.6%	5.4%	4.7%

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 fair value multiple, though we have recently reduced it to account for rising long-term interest rates. Shares currently look undervalued, as shares trade below historical norms. We believe that valuation multiple expansion could provide a 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%	79%	75%

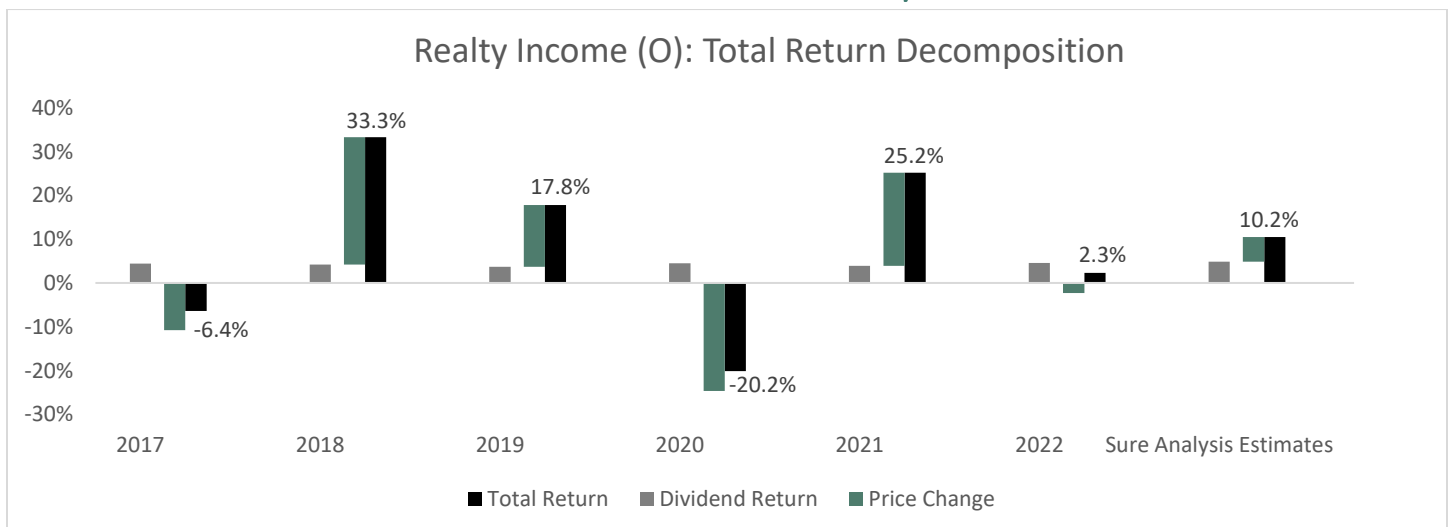
Realty Income has a relatively high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historical range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend looks sustainable, despite the fact that Realty Income pays out around 79% 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 5.4%, and Realty Income is trading marginally below our fair value estimate. Due to its attractive forecasted total returns we rate Realty Income a Buy 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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