



# Realty Income (O)

Updated November 13<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$50	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$36B
<b>Fair Value Price:</b>	\$56	<b>5 Year Growth Estimate:</b>	4.1%	<b>Ex-Dividend Date:</b>	11/30/23
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.3%	<b>Dividend Payment Date:</b>	12/15/23
<b>Dividend Yield:</b>	6.1%	<b>5 Year Price Target</b>	\$69	<b>Years Of Dividend Growth:</b>	26
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 November 6, 2023, Realty Income Corp reported its financial results for the third quarter of 2023. The company's total revenue reached \$1,039.1 million, a significant increase from \$837.3 million in the same period in 2022. Net income available to common stockholders was reported at \$233.5 million or \$0.33 per share, compared to \$219.6 million or \$0.36 per share in Q3 2022. The Funds from Operations (FFO) available to common stockholders stood at \$736.1 million, or \$1.04 per share, up from \$597.2 million, or \$0.97 per share in the previous year.

Realty Income Corp's normalized FFO and Adjusted Funds from Operations (AFFO) per share were \$1.04 and \$1.02, respectively. The company invested heavily, amounting to \$2.0 billion in 289 properties and properties under development or expansion. This investment yielded an initial weighted average cash lease yield of 6.9%. Additionally, Realty Income Corp raised \$885.9 million from the sale of common stock, primarily through its At-The-Market (ATM) program. As of September 30, 2023, the company owned or held interests in 13,282 properties, leased to 1,324 clients across 85 industries, maintaining a high portfolio occupancy rate of 98.8%. The company achieved a same store rental revenue growth of 2.2% and a remarkable rent recapture rate of 106.9% on properties re-leased.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFOPS</b>	\$2.41	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.30	\$3.39	\$3.59	\$3.90	<b>\$4.00</b>	<b>\$4.90</b>
<b>DPS</b>	\$2.15	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.72	\$2.80	\$2.82	\$2.98	<b>\$3.07</b>	<b>\$3.62</b>
<b>Shares<sup>1</sup></b>	208	225	251	260	284	304	334	373	591	661	<b>723.9</b>	<b>600</b>

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,

<sup>1</sup> In Millions

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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
<b>P/AFFO</b>	15.4	18.7	19.0	19.8	18.7	19.7	22.4	18.3	20.1	16.7	<b>12.5</b>	<b>14.0</b>
<b>Avg. Yld.</b>	5.0%	5.0%	4.6%	3.9%	4.4%	4.3%	3.7%	4.5%	3.9%	4.6%	<b>6.1%</b>	<b>5.3%</b>

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 our fair value estimate of 14x. 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
<b>Payout</b>	89%	85%	83%	83%	83%	83%	82%	83%	79%	76%	<b>77%</b>	<b>74%</b>

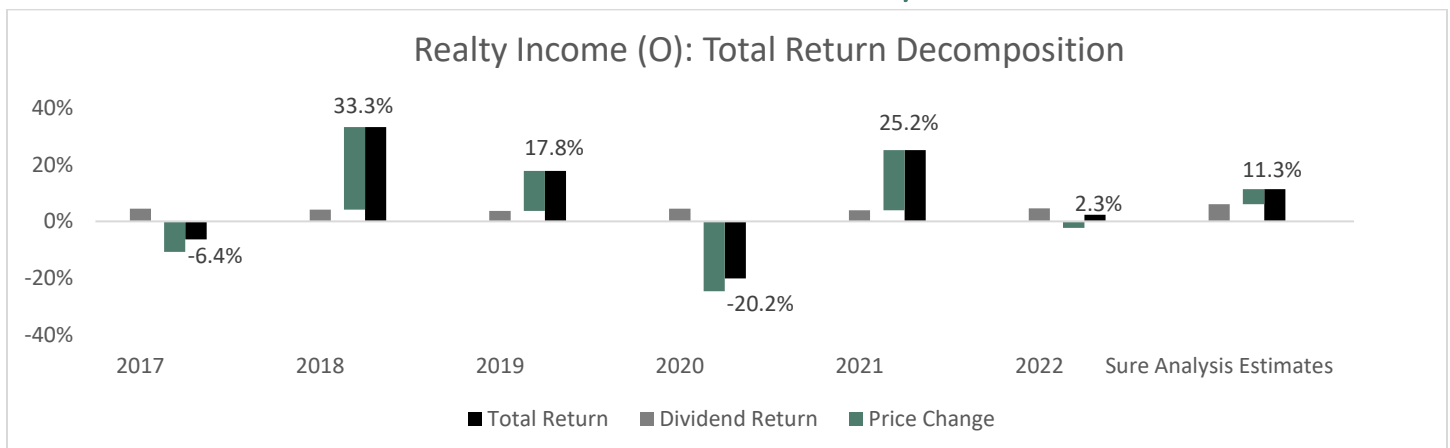
Realty Income has a relatively high dividend payout ratio, but that has been true for all of the last decade. In fact, its current dividend payout ratio is close to the bottom of the historical range. Due to the steady growth of Realty Income's profits, even during the last financial crisis, the dividend 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 6.1%, 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
<b>Revenue</b>	780	934	1,023	1,103	1,216	1,328	1,488	1,647	2,080	3,344
<b>Gross Profit</b>	741	880	968	1,040	1,146	1,262	1,400	1,542	1,947	3,117
<b>Gross Margin</b>	95.0%	94.2%	94.6%	94.3%	94.3%	95.0%	94.0%	93.6%	93.6%	93.2%
<b>SG&amp;A Exp.</b>	57	51	49	52	58	84	66	73	97	138
<b>D&amp;A Exp.</b>	307	375	409	450	499	540	594	677	898	1,670
<b>Operating Profit</b>	378	454	509	538	589	638	739	792	952	1,309
<b>Operating Margin</b>	48.4%	48.6%	49.8%	48.8%	48.5%	48.0%	49.7%	48.1%	45.8%	39.1%
<b>Net Profit</b>	246	271	284	316	319	364	436	395	359	869
<b>Net Margin</b>	31.5%	29.0%	27.7%	28.6%	26.2%	27.4%	29.3%	24.0%	17.3%	26.0%
<b>Free Cash Flow</b>	519	628	694	800	876	941	1,069	1,116	1,322	2,564
<b>Income Tax</b>	2	3	3	3	6	5	6	15	32	45

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	9924	11013	11845	13153	14058	15260	18555	20740	43138	49673
<b>Cash &amp; Equivalents</b>	10	4	40	9	7	10	54	824	259	171
<b>Accounts Receivable</b>	39	64	82	105	120	145	182	286	427	568
<b>Goodwill &amp; Int. Ass.</b>	951	1,055	1,050	1,097	1,210	1,214	1,508	1,725	8,952	8,900
<b>Total Liabilities</b>	4,503	5,372	5,292	6,366	6,667	7,140	8,751	9,723	18,008	20,830
<b>Long-Term Debt</b>	4,225	4,999	4,889	5,906	6,178	6,575	7,978	8,902	15,555	18,111
<b>Shareholder's Equity</b>	4,776	5,218	6,136	6,371	7,372	8,089	9,774	10,985	25,053	28,713
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	3.2%	2.6%	2.5%	2.5%	2.3%	2.5%	2.6%	2.0%	1.1%	1.9%
<b>Return on Equity</b>	7.5%	5.4%	5.0%	5.0%	4.6%	4.7%	4.9%	3.8%	2.0%	3.2%
<b>ROIC</b>	3.3%	2.7%	2.6%	2.6%	2.4%	2.6%	2.7%	2.1%	1.2%	2.0%
<b>Shares Out.</b>	207	225	250	260	284	299	330	355	355	620
<b>Revenue/Share</b>	4.07	4.27	4.33	4.32	4.44	4.58	4.71	4.77	5.02	5.46
<b>FCF/Share</b>	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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