Camden Property Trust (CPT)

Updated February 3rd, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	4.6%	**Market Cap:**	$10.5 B
Fair Value Price:	$80	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/28/24
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	04/17/24
Dividend Yield:	4.3%	**5 Year Price Target**	$98	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 December 31st, 2023, Camden owned 172 properties containing 58,634 apartments. The $10.5 billion market cap company has about 1,650 employees, and generates around $1.54 billion in revenues annually.

On February 1st, 2024, Camden raised its dividend by 3% to a quarterly rate of $1.03.

On the same day, Camden reported Q4 and full-year results for the period ending December 31st, 2023. For the quarter, the company reported property revenue of $387.6 million, a 3.1% increase compared to Q4 2022. Increased revenues were primarily driven by same-property revenue growth, which came in at 2.6%, and a higher number of owned properties. However, due to same-property expenses growing by 7.7% during the period, same-property net operating income (NOI) essentially came in flat.

Funds from Operations (FFO) totaled $189.7 million or $1.72 per share compared to $191.6 million or $1.74 per share in Q4 2022. For the full-year, FFO/share grew to $6.78, up from $6.59 in fiscal 2022. Management introduced their fiscal 2024 outlook, expecting FFO/share to land between $6.54 and $6.84. The midpoint of $6.69 implies a year-over-year decline of 1.3%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	$4.29	$4.54	$4.64	$4.53	$4.77	$5.05	$4.90	$5.39	$6.59	$6.78	***$6.69***	***$8.14***
DPS	$2.64	$2.80	$2.95	$3.00	$3.08	$3.20	$3.29	$3.32	$3.76	$4.00	***$4.12***	***$5.01***
Shares[1]	88.5	97.6	89.9	91.5	103.1	97.3	99.4	102.8	108.4	109.4	***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 2014, Camden has been able to grow both its dividend and FFO/share by compound annual growth rate of 5.2% and 4.7%, 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, we are impressed by the resilience that the company demonstrated during the pandemic. Further, Camden's FFO/share grew in 2023, despite the underlying challenges residential REITs faced. General economic growth over the long-term ought to help drive growth as well. At the same time, it is expected that the Fed will start cutting rates this year, which could improve Camden's interest outlook, especially from 2025 onwards.

Offsetting these positive points is the idea that growth began to slow even before the pandemic, while same property revenue growth is set to remain weak this year, projected to be between 0.50% and 2.5%. We are also cautious of the fact that rates could remain elevated despite most investors expecting cuts this year. With the economy growing despite high borrowing costs, the Fed may cut rates at a slower pace than Wall Street expects, hampering Camden's prospects.

[1] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	15.7	16.8	17.6	16.6	20.2	20.7	19.4	25.0	20.5	15.8	***14.4***	***12.0***
Avg. Yld.	3.90%	3.70%	3.60%	3.70%	3.50%	3.10%	3.50%	2.50%	2.80%	3.70%	***4.3%***	***5.1%***

Over the past decade, Camden has traded with an average price-to-FFO ratio of just under 19. The stock's current P/FFO of 14.4 is on the lower end of its past valuation range. Given that interest rates remain high and that Camden's growth prospects do not appear particularly exciting, we have set our fair multiple at 12X. Note that 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	62%	62%	64%	66%	65%	63%	67%	62%	57%	59%	***62%***	***62%***

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.

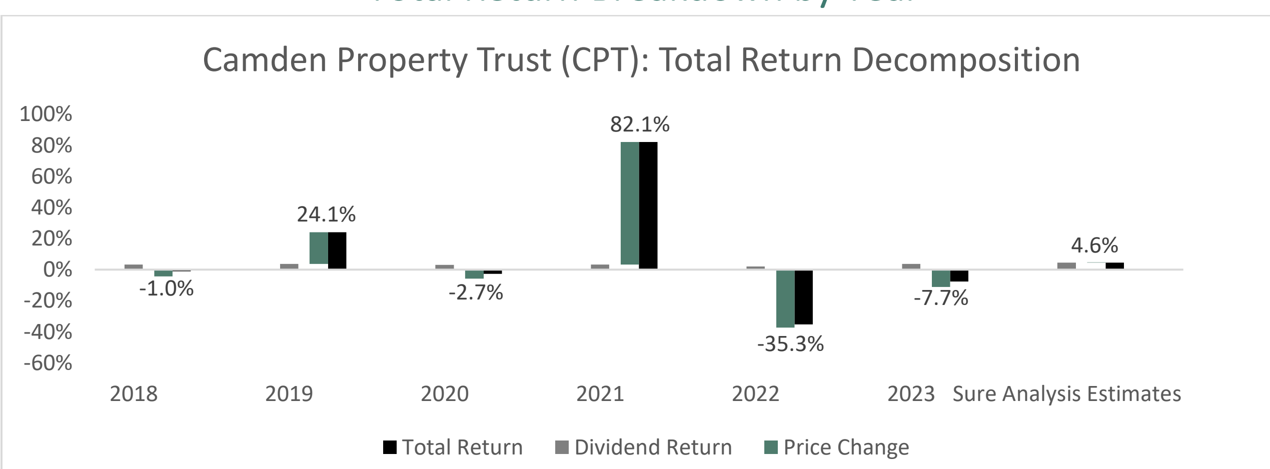
The company's FFO payout ratio has hovered in the 60% to 70% range for the last decade. We anticipate it will remain at slightly lower levels, with dividend growth tracking FFO growth over time. During the Great Recession, Camden posted FFO of $2.90, $1.68, $2.72, and $2.73 for the 2008 through 2011 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 in the current environment, so far.

As of the most recent report, Camden held $8.6 billion in real estate and $9.4 billion in total assets against $4.3 billion in total liabilities. The company's net debt-to-adjusted EBITDA ratio equaled 4.0x, improving from 4.1x last year.

Final Thoughts & Recommendation

Camden is a leading multifamily REIT with a solid operating history. The company also posted a record FFO/share last year despite operating in a tough market environment. Still, we remain prudent regarding its medium-term prospects due to a challenging residential market despite potential rate cuts this year. We are forecasting a 4.6% annual total return potential, driven by a 4% FFO/share growth, a 4.3% starting yield, and a possible modest valuation headwind. Shares earn a sell 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.