



Realty Income (O)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	9.3%	Market Cap:	\$46B
Fair Value Price:	\$58	5 Year Growth Estimate:	2.2%	Ex-Dividend Date:	3/30/24 ¹
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	4/15/24 ²
Dividend Yield:	5.8%	5 Year Price Target	\$65	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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 February 20th, 2024, Realty Income Corp reported its financial results for the fourth quarter of 2023. Realty Income (NYSE:O) recently reported its fourth-quarter results, revealing better-than-expected revenue but weaker-than-anticipated normalized Funds from Operations (FFO), with the midpoint of its 2023 earnings guidance slightly below Wall Street's consensus. Following the quarter's end, the real estate investment trust (REIT) finalized its acquisition of Spirit Realty. For 2024, Realty Income projects a normalized FFO per share ranging from \$4.17 to \$4.29, with a midpoint of \$4.23, compared to the consensus estimate of \$4.25 and the \$4.00 reported for 2023. Same-store rent growth guidance for the year is around 1.0% year-over-year, in contrast to the 1.9% growth seen in 2023, while acquisition volume guidance stands at approximately \$2.0 billion. In the fourth quarter, normalized FFO per share was \$1.00, missing the average analyst estimate of \$1.04 and down from \$1.04 in Q3 and \$1.05 in Q4 2022. Revenue totaled \$1.08 billion, surpassing the consensus of \$983.7 million, and rose from \$1.04 billion in the previous quarter and \$888.7 million a year earlier. However, total expenses increased to \$841.3 million from \$805.9 million in Q3 and \$686.5 million in Q4 2022. Portfolio occupancy stood at 98.6% as of December 31, 2023, slightly lower than the 98.8% reported at September 30.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFOPS	\$2.57	\$2.74	\$2.88	\$3.05	\$3.19	\$3.30	\$3.39	\$3.59	\$3.90	\$4.00	\$4.17	\$4.65
DPS	\$2.19	\$2.27	\$2.39	\$2.53	\$2.64	\$2.72	\$2.80	\$2.82	\$2.98	\$3.05	\$3.08	\$3.88
Shares³	225	251	260	284	304	334	373	591	661	861	861	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

¹ Estimate

² Estimate

³ In Millions

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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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/AFFO	18.7	19	19.8	18.7	19.7	22.4	18.3	20.1	16.7	12.5	12.7	14.0
Avg. Yld.	4.6%	4.4%	4.2%	4.4%	4.2%	3.7%	4.5%	3.9%	4.6%	6.1%	5.8%	6.0%

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

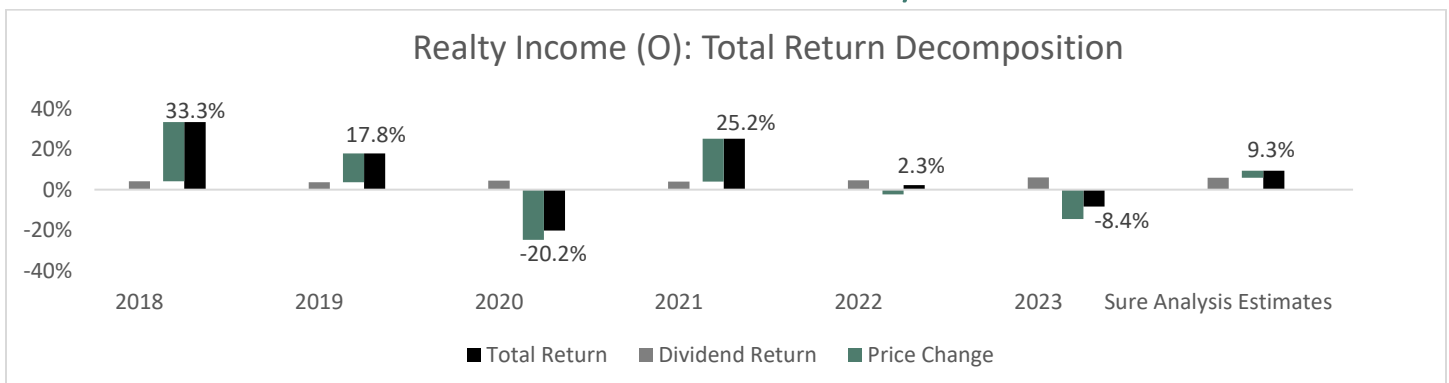
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	85%	83%	83%	83%	83%	82%	83%	79%	76%	76%	74%	83%

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 74% 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 5.8%, and Realty Income is trading marginally below our fair value estimate. However, its growth rate is expected to slow moving forward. Due to its mediocre forecasted total returns, we rate Realty Income a Hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	934	1,023	1,103	1,216	1,328	1,488	1,647	2,080	3,344	4,079
Gross Profit	880	968	1,040	1,146	1,262	1,400	1,542	1,947	3,117	3,762
Gross Margin	94.2%	94.6%	94.3%	94.3%	95.0%	94.0%	93.6%	93.6%	93.2%	92.2%
SG&A Exp.	51	49	52	58	84	66	73	97	138	145
D&A Exp.	375	409	450	499	540	594	677	898	1,670	1,895
Operating Profit	454	509	538	589	638	739	792	952	1,309	1,722
Operating Margin	48.6%	49.8%	48.8%	48.5%	48.0%	49.7%	48.1%	45.8%	39.1%	42.2%
Net Profit	271	284	316	319	364	436	395	359	869	872
Net Margin	29.0%	27.7%	28.6%	26.2%	27.4%	29.3%	24.0%	17.3%	26.0%	21.4%
Free Cash Flow	628	694	800	876	941	1,069	1,116	1,322	2,564	2,959
Income Tax	3	3	3	6	5	6	15	32	45	52

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11013	11845	13153	14058	15260	18555	20740	43138	49673	57779
Cash & Equivalents	4	40	9	7	10	54	824	259	171	233
Accounts Receivable	64	82	105	120	145	182	286	427	543	711
Goodwill & Int. Ass.	1,055	1,050	1,097	1,210	1,214	1,508	1,725	8,952	8,900	8,749
Total Liabilities	5,372	5,292	6,366	6,667	7,140	8,751	9,723	18,008	20,830	24,672
Long-Term Debt	4,931	4,821	5,840	6,111	6,500	7,902	8,817	15,443	18,111	21,520
Shareholder's Equity	5,218	6,136	6,371	7,372	8,089	9,774	10,985	25,053	28,713	32,941
LTD/E Ratio	0.88	0.74	0.86	0.83	0.80	0.81	0.80	0.62	0.63	0.65

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.6%	2.5%	2.5%	2.3%	2.5%	2.6%	2.0%	1.1%	1.9%	1.6%
Return on Equity	4.9%	4.7%	4.7%	4.5%	4.7%	4.9%	3.8%	2.0%	3.2%	2.8%
ROIC	2.7%	2.6%	2.6%	2.4%	2.6%	2.7%	2.1%	1.2%	2.0%	1.7%
Shares Out.	225	251	260	284	304	334	373	591	661	861
Revenue/Share	4.27	4.33	4.32	4.44	4.58	4.71	4.77	5.02	5.46	5.89
FCF/Share	2.87	2.94	3.13	3.20	3.24	3.38	3.23	3.19	4.19	4.27

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

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