Lexington Realty Trust (LXP)

Updated May 5th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$8.6	**5 Year CAGR Estimate:**	11.7%	**Market Cap:**	$2.5 B
Fair Value Price:	$8.8	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	06/28/2024
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date[2]:**	07/17/2024
Dividend Yield:	6.0%	**5 Year Price Target:**	$12	**Years of Dividend Growth:**	5
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Lexington Realty Trust owns equity and debt investments in single-tenant properties and land across the United States. The trust's portfolio is primarily industrial equity investments. The trust grows the industrial portfolio by financing, or by acquiring new investments with long-term leases, repositioning the portfolio by recycling capital and opportunistically taking advantage of capital markets. Additionally, the trust supplies investment advisory and asset management services for investors in the single-tenant net-lease asset market. Lexington Realty trades on the NYSE under the ticker symbol LXP and is headquartered in New York. LXP has a market capitalization of $2.5 billion.

On May 2nd, 2024, Lexington reported first quarter 2024 results for the period ending March 31st, 2024. The trust announced adjusted funds from operations (AFFO) of $0.16 per share for the quarter, a penny short of the prior year quarter.

For Q1, the trust completed 119K square feet of lease extensions, which increased industrial base and cash base rents by 28.0% and 27.9%, respectively.

Lexington also invested $26 million in ongoing development projects. Presently, the trust's stabilized industrial portfolio is 95.5% leased. At quarter end, the trust had leverage of 6.1X net debt to adjusted EBITDA.
Leadership reaffirmed its 2024 guidance, and continues to expect to generate 2023 AFFO of $0.61 to $0.65 per share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	$1.11	$1.10	$1.14	$0.97	$0.96	$0.80	$0.76	$0.78	$0.67	$0.70	***$0.65***	***$0.91***
DPS	$0.68	$0.68	$0.69	$0.70	$0.71	$0.41	$0.42	$0.43	$0.48	$0.50	***$0.52***	***$0.55***
Shares[3]	229.4	233.8	237.7	241.5	240.8	237.9	268.2	287.4	282.5	291.2	***300.0***	***340.0***

Lexington Realty has a long-term track record of declining adjusted funds from operations in both the historical nine and five year periods. Over the last nine and five years, LXP's adjusted FFO has decreased by -5.0% and -6.1% per year on average. Additionally, the dividend has also shrunk over the long-term, and today it is still below its 2012 level. Despite this, now that the trust has transformed itself into a full-fledged industrial REIT, we estimate it can grow AFFO per share by 7.0% annually in the intermediate term.

The trust's ballooning share count will continue to expand to fund industrial property acquisitions and bolster the portfolio. Additionally, as development projects come to completion, and new leases are signed, AFFO will grow. The trust can also grow organically through increases in same store net operating income (NOI). We estimate the trust will tack on token increases to the annual dividend to build a consecutive dividend growth streak from the 2019 base.

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[1] Estimate
[2] Estimate
[3] In thousands

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	9.8	8.4	8.3	10.5	8.8	12.2	13.9	16.4	17.7	14.0	***13.2***	***13.5***
Avg. Yld.	5.9%	7.4%	7.4%	6.8%	8.4%	6.2%	4.0%	3.4%	3.9%	5.1%	***6.0%***	***4.4%***

The current P/AFFO of 13.2 based on 2024's estimated AFFO is a discount to the 5-year average of 14.8. Given the trust's transformation to a complete industrial property REIT, we peg our fair value estimate at 13.5 times AFFO, which implies the potential for a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

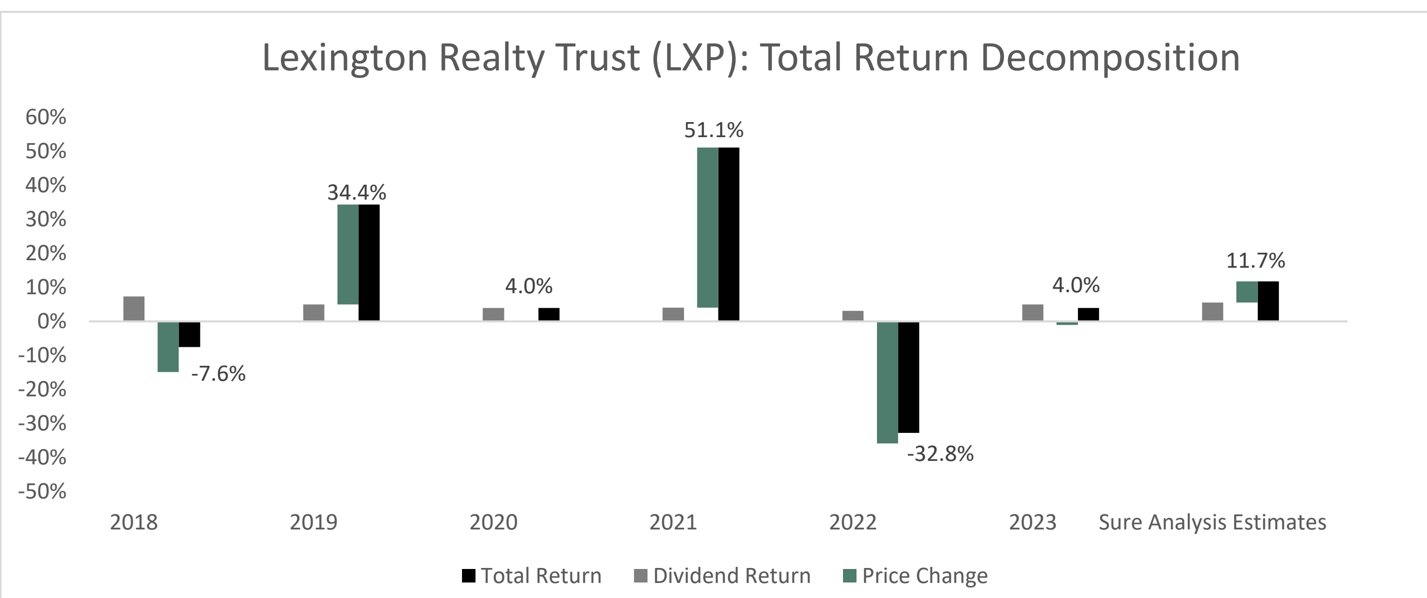
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	61%	62%	60%	72%	74%	52%	56%	55%	72%	71%	***80%***	***60%***

Lexington Realty has maintained a fairly conservative payout ratio over the last decade; however, it has done so because it has cut the dividend multiple times as adjusted funds from operations shrunk. This unfortunately adds to the risk of the trust and increases the volatility of estimating total returns. LXP was negatively impacted by the great recession, which saw the trust's dividend fall from a height of $1.83 in 2006 to $0.42 in 2010. During that time, the share count increased massively and still the trust reported losses. Lexington is not recession resistant, though its industrial concentration was a boon during the COVID pandemic. We see only a small competitive advantage in LXP's growth strategy, where they invest only in "shovel-ready" opportunities to avoid risk, and partner with merchant builders, who will typically take on the risk of cost overruns.

Final Thoughts & Recommendation

Lexington Realty Trust has a history of declining adjusted funds from operations over the last decade, and the recent five year period. Additionally, the dividend cannot be trusted after being slashed multiple times. Nevertheless, the high dividend yield of 6.0% adds to total returns meaningfully. And we believe the trust can squeeze growth out of its industrial property focus. Today shares trade at 98% of our fair value estimate. Overall, we expect 11.7% in annualized total returns and thus rate LXP as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	424	431	429	393	397	326	330	344	321	341
Gross Profit	205	208	216	170	186	136	127	120	86	99
Gross Margin	48.4%	48.3%	50.3%	43.2%	46.9%	41.8%	38.4%	34.7%	26.7%	29.0%
SG&A Exp.	28	29	31	34	32	31	30	35	39	36
D&A Exp.	167	167	170	178	172	154	168	183	187	191
Operating Profit	177	179	185	135	154	106	97	84	47	62
Op. Margin	41.8%	41.5%	43.1%	34.5%	38.9%	32.4%	29.2%	24.4%	14.6%	18.2%
Net Profit	93	112	96	86	227	280	183	383	114	30
Net Margin	22.0%	25.9%	22.3%	21.8%	57.3%	85.9%	55.5%	111.2%	35.4%	8.8%
Free Cash Flow	197	216	235	213	202	174	185	205	162	192

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,778	3,808	3,441	3,553	2,954	3,180	3,493	4,006	4,054	4,193
Cash & Equivalents	191	93	87	108	169	123	179	191	54	199
Acct Receivable	68	95	39	58	62	70	70	4	3.03	5.33
Goodwill & Intang.	706	693	597	599	420	410	409	190	155	123
Total Liabilities	2,269	2,346	2,029	2,212	1,607	1,456	1,502	1,682	1,663	1,927
Accounts Payable	38	41	60	39	31	30	55	78	74	58
Long-Term Debt	1,964	2,055	1,734	1,942	1,365	1,185	1,214	1,369	1,360	1,643
Total Equity	1,392	1,346	1,299	1,230	1,236	1,611	1,877	2,197	2,259	2,138
D/E Ratio	1.32	1.43	1.24	1.47	1.03	0.69	0.62	0.60	0.58	0.74

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.5%	2.9%	2.6%	2.4%	7.0%	9.1%	5.5%	10.2%	2.8%	0.7%
Return on Equity	6.6%	8.2%	7.2%	6.8%	18.4%	19.7%	10.5%	18.8%	5.1%	1.3%
ROIC	2.7%	3.2%	2.9%	2.7%	7.6%	10.0%	6.0%	11.1%	3.1%	0.8%
Shares Out.	229.4	233.8	237.7	241.5	240.8	237.9	268.2	287.4	282.5	291.2
Revenue/Share	1.85	1.84	1.81	1.63	1.65	1.37	1.23	1.20	1.14	1.17
FCF/Share	0.86	0.92	0.99	0.88	0.84	0.73	0.69	0.71	0.57	0.66

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