W. P. Carey (WPC)

Updated November 6th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$12B
Fair Value Price:	$61	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/28/24[1]
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Dividend Payment Date:**	01/16/25[2]
Dividend Yield:	6.3%	**5 Year Price Target**	$71	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

W.P. Carey is a commercial real estate focused REIT that operates two segments: real estate ownership and investment management. The REIT operates more than 1,200 single tenant properties on a net lease basis, across the US and Northern and Western Europe. W.P. Carey was founded more than 40 years ago and is headquartered in New York, NY.

For its fiscal third quarter, W. P. Carey reported that its revenues totaled $397 million, which was 11% less than the revenues that W. P. Carey generated during the previous year's period, due to its portfolio reduction over the last year. Revenues came in slightly above the analyst consensus estimate, beating it by $3 million.

During the third quarter, the trust was marginally more profitable than the analyst community had expected, as adjusted funds-from-operations came in at $1.18 on a per-share basis, beating the consensus estimate by $0.01. Adjusted funds-from-operations were down by 11% on a per-share basis compared to the previous year's quarter.

W.P. Carey has updated its guidance for 2024, forecasting funds from operations in a range of $4.65 to $4.71 on a per-share basis, which means a weaker result compared to 2023. This is largely explained by the company exiting its office business, via the combination of asset sales and a spin-off. The lower rent proceeds due to these divestments explain why funds from operations will be lower in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFOPS	$4.81	$4.99	$5.12	$5.30	$5.41	$5.00	$4.60	$5.03	$5.29	$5.18	***$4.68***	***$5.43***
DPS	$3.69	$3.81	$3.90	$4.01	$4.09	$4.15	$4.18	$4.22	$4.24	$4.07	***$3.50***	***$3.86***
Shares[3]	104	104	107	108	146	165	177	187	210	219	***225***	***240***

W. P. Carey generated FFO-per-share growth in the mid-single-digits for many years, but over the last decade, growth was lower, in the low single-digits on average. FFOPS declined during the initial phase of the pandemic but recovered quickly, rising in both 2021 and 2022. The divestments of the office portfolio hurt profits in 2024, but W.P. Carey believes that this portfolio repositioning will improve the long-term growth outlook.

W. P. Carey invests additional money in new properties continuously. Over the last decade the REIT invested more than $10 billion into new assets by either purchasing entire REITs or through asset/portfolio purchases. W. P. Carey can access debt markets at favorable rates, which lowers the trust's cost of capital, which then allows for improved investment spreads. Since W. P. Carey cannot finance these acquisitions with debt alone, and since the REIT does not retain a very large portion of its cash flow, W. P. Carey issues new shares regularly. A factor that drives organic revenue growth is that the contracts W. P. Carey and the tenants sign often include ongoing rent increases, which results in growing revenues even without new asset purchases. These growth factors should persist going forward, which is why W. P. Carey should be able to increase its profits in the long run. A growing share count is a headwind for W.P. Carey's FFO-per-share growth rate. Overall, we believe that around 3% annual FFO-per-share growth is realistic.

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[1] Estimated date

[2] Estimated date

[3] In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	12.9	12.7	12.2	12.4	12.0	15.8	15.2	16.3	14.7	12.5	***12.0***	***13.0***
Avg. Yld.	5.7%	6.0%	6.2%	6.1%	6.3%	5.3%	6.0%	5.1%	5.4%	6.3%	***6.3%***	***5.5%***

W. P. Carey's share price has been volatile over the last year, but shares are now trading relatively close to when we did our last update. Shares are trading for 12 times this year's expected funds from operations, which is slightly below our fair value estimate. Despite the dividend reduction, the yield is north of 6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	76.7%	76.4%	76.2%	75.7%	75.6%	83.0%	90.9%	83.9%	80.2%	78.6%	***74.8%***	***71.2%***

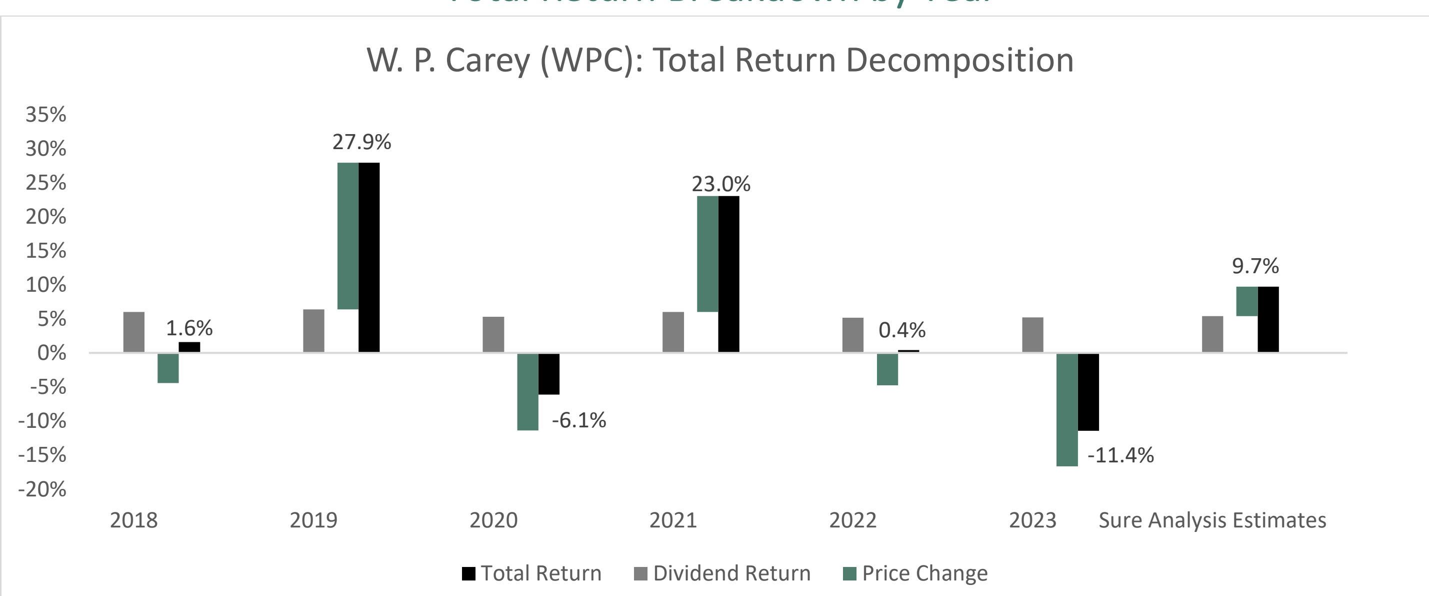
W. P. Carey has grown its dividend very regularly for many years, although the company always operated with a rather elevated dividend payout ratio. When W.P. Carey decided to exit the office real estate business, it also decided that a dividend reduction was a prudent move in order to have more cash available for reinvesting in the business. At the current level, the dividend looks sustainable.

W.P. Carey is quite recession-proof, as even during the Great Recession the REIT managed to keep its profits relatively stable. Due to geographic diversification (around 65% US, 30% Europe, 5% other), W. P. Carey is not overly dependent on the progress of any single market, which reduces risks for investors. This safety is underlined by long-lasting contracts, very high occupancy rates of ~99%, considerable scale, and an investment grade credit rating. W. P. Carey is one of the biggest players in its industry, and its focus on the sale-and-lease-back-transactions niche markets means that it is unlikely that competitors or new market entrants will hurt its business.

Final Thoughts & Recommendation

W.P. Carey has a relatively resilient business model, and even following the recent dividend reduction, the dividend yield is far from low. W.P. Carey is active in an attractive market segment. The REIT weathered the pandemic relatively well and should be able to grow its FFO-per-share in the long run. Due to solid but not overly attractive total returns being expected over the coming years, we rate W.P. Carey a hold at current prices.

Total Return Breakdown by Year



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	908	938	942	848	886	1,233	1,209	1,332	1,479	1,741
Gross Profit	694	796	787	728	793	1,083	1,090	1,207	1,325	1,519
Gross Margin	76.4%	84.8%	83.6%	85.8%	89.5%	87.9%	90.1%	90.7%	89.6%	87.3%
SG&A Exp.	128	136	115	103	96	102	93	107	122	131
D&A Exp.	248	317	283	316	349	545	509	548	563	628
Operating Profit	329	387	396	371	405	534	554	625	700	815
Operating Margin	36.2%	41.3%	42.1%	43.8%	45.8%	43.3%	45.8%	46.9%	47.3%	46.8%
Net Profit	240	172	268	277	412	305	455	410	599	708
Net Margin	26.4%	18.4%	28.4%	32.7%	46.5%	24.8%	37.7%	30.8%	40.5%	40.7%
Free Cash Flow	375	500	547	521	509	812	802	926	1,004	1,073
Income Tax	18	38	3	3	14	26	(21)	28	28	44

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,648	8,742	8,454	8,231	14,183	14,061	14,708	15,481	18,102	17,977
Cash & Equivalents	199	157	155	162	218	196	249	165	168	634
Accounts Receivable	3	4	5	4	1	1	0	0		
Goodwill & Int. Ass.	2,244	2,100	2,458	2,498	3,856	4,031	4,093	4,131	4,531	3,994
Total Liabilities	4,758	5,181	5,029	4,820	7,353	7,113	7,829	7,897	9,093	9,270
Accounts Payable	294	342	267	263	404	487	604	573	624	616
Long-Term Debt	4,089	4,480	4,441	4,265	6,379	6,054	6,696	6,792	7,878	8,144
Shareholder's Equity	3,751	3,427	3,302	3,192	6,824	6,942	6,877	7,582	8,994	8,700
LTD/E Ratio	1.09	1.31	1.35	1.34	0.93	0.87	0.97	0.90	0.88	0.94

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.6%	2.0%	3.1%	3.3%	3.7%	2.2%	3.2%	2.7%	3.6%	3.9%
Return on Equity	7.9%	4.6%	7.7%	8.1%	8.0%	4.4%	6.6%	5.7%	7.2%	8.0%
ROIC	3.9%	2.2%	3.4%	3.6%	3.9%	2.3%	3.4%	2.9%	3.8%	4.2%
Shares Out.	104	104	107	108	146	165	177	187	210	219
Revenue/Share	9.10	8.81	8.79	7.85	7.52	7.20	6.92	7.27	7.38	8.07
FCF/Share	3.76	4.69	5.11	4.82	4.33	4.74	4.58	5.06	5.01	4.98

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