Realty Income Corp. (O)

$60.16 (As of 06/03/20)

Price Target (6-12 Months): **$64.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/03/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: B | Momentum: D	

Summary

Realty Income collected 82% of total rents for May as of Jun 1, 2020, while April receipts improved to 84.2% compared with 82.9% rent collected as of May 1. High dependence on tenants belonging to service, non-discretionary and low-price retail businesses, which are less susceptible to economic recessions and competition from Internet retailing, provide stable rental revenues. With strong liquidity and balance-sheet position, Realty Income seems well-poised to sail through uncertain times. However, the company's shares have fallen wider than its industry's decline over the past three months. Also, low customer traffic, resulting from government-mandated closures and social-distancing requirements are impacting the company's tenants. Amid this, it continues to be in discussions with tenants seeking rent relief requests and deferrals.

Price, Consensus & Surprise

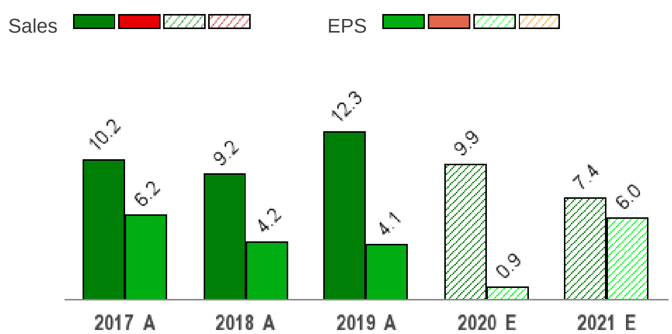
Data Overview

52 Week High-Low	**$84.92 - $38.00**
20 Day Average Volume (sh)	**3,283,236**
Market Cap	**$20.7 B**
YTD Price Change	**-18.3%**
Beta	**0.66**
Dividend / Div Yld	**$2.80 / 4.6%**
Industry	**REIT and Equity Trust - Retail**
Zacks Industry Rank	**Bottom 20% (202 out of 253)**

Last EPS Surprise	**3.5%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**-0.7%**
Expected Report Date	**08/03/2020**
Earnings ESP	**4.2%**

P/E TTM	**17.8**
P/E F1	**18.0**
PEG F1	**4.0**
P/S TTM	**13.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	410 E	417 E	424 E	431 E	1,761 E
2020	414 A	402 E	409 E	416 E	1,640 E
2019	354 A	365 A	374 A	398 A	1,492 A

EPS Estimates

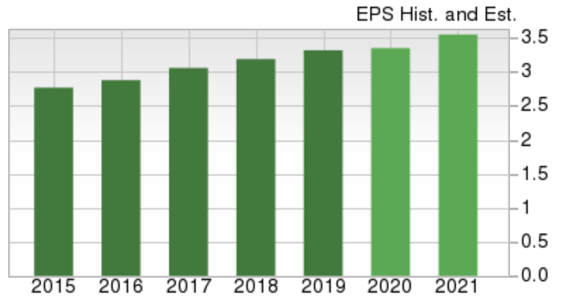
	Q1	Q2	Q3	Q4	Annual*
2021	$0.86 E	$0.87 E	$0.88 E	$0.88 E	$3.55 E
2020	$0.88 A	$0.80 E	$0.83 E	$0.85 E	$3.35 E
2019	$0.82 A	$0.82 A	$0.83 A	$0.86 A	$3.32 A

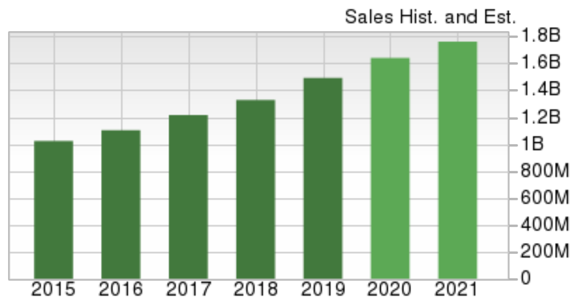
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Realty Income, founded in 1969 and headquartered in San Diego, CA, is engaged in the acquisition and management of freestanding commercial properties which reap rental revenue under long-term net lease agreements. This S&P 500 Index member is structured as a real estate investment trust, or REIT, and has earned its reputation of "The Monthly Dividend Company" for being a payer of dividends on a monthly basis.





As of Mar 31, 2020, Realty Income's portfolio comprised 6,525 properties, situated across 49 states in the United States, Puerto Rico and the U.K. These properties are leased to 630 tenants, belonging to 51 separate industries. As of the same date, Realty Income's retail properties generated 84.1% of rental revenues, while industrial properties contributed 10.7%. In addition, office assets reaped 3.5% of rental revenues and the remaining 1.7% was produced by agriculture assets.

In May 2019, Realty Income announced closing the £429-million sale-leaseback transaction with Sainsbury's. Particularly, the move, which marks the company's first international real estate acquisition, involved gaining of 12 properties in the U.K. under long-term net lease agreements with Sainsbury's. Notably, Sainsbury's is one of the top operators in the grocery industry. Executed at a 5.31% GBP initial cap rate, the sale-leaseback transaction involves annual rent increases over the duration of the lease term, and carries a weighted average lease term of around 15 years.

In December 2019, Realty Income completed the acquisition of 444 single-tenant retail properties from CIM Real Estate Finance Trust, Inc. for $1.2 billion. This represented part of the previously announced transaction with CIM Real Estate Finance Trust, Inc. In January 2020, the company acquired the remaining seven properties of the transaction for around $26 million.

Note: *All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income*.

Reasons To Buy:

Focus on leasing to service, non-discretionary and low price-based retailers, accretive buyouts as well as conservative capital structure augur well. Rising monthly dividend payout is encouraging.

- Realty Income's portfolio is well diversified with respect to tenant, industry, geography and property type. The company's properties are located in 49 states in the United States, Puerto Rico and the U.K. In addition, tenants operate in 51 different industries. In addition, besides retail properties, the company's portfolio comprises industrial, office as well as agricultural properties. This diversification helps it mitigate risk associated with a particular industry, geography or asset type.

- The company derives 95% of its annualized retail rental revenues from tenants with a service, non-discretionary, and/or low price point component to their business. Such businesses are less susceptible to economic recessions as well as competition from Internet retailing. Moreover, the company targets industrial properties leased to industry leaders, mainly investment grade rated companies, providing more reliable streams of income. These efforts boost the stability of the rental revenue and generate predictable cash flows. Moreover, the company collected 82.1% of May rent from its top 20 tenants and 98.2% from its investment-grade tenants.

- The company's top four industries (around 37% of annualized rent) — convenience stores (accounting 11.9% of rental revenues for first-quarter 2020), drug stores (9%), dollar stores (8%) and grocery stores (7.7%) — sell 'essential' goods and have continued to thrive even during the pandemic. Resultantly, the company has received almost all rent due from tenants in these industries. Moreover, as of Jun 1, 2020, the company collected 84.2% and 82% of its rents for April and May, respectively, across its total portfolio.

- Realty Income's solid underlying real estate quality and prudent underwriting at acquisition has helped the company maintain high occupancy levels consistently. In fact, since 1996, the company's occupancy level has never been below 96%. Additionally, as of Mar 31, 2020, its portfolio occupancy was 98.5%, denoting an increase of 20 basis points (bps) year over year.

- The company generates cash flow from real estate owned under long-term, net lease agreements, with regional and national commercial tenants. Under net lease agreements, the tenant is usually responsible for monthly rent and certain property operating expenses, including property taxes, insurance, and maintenance. This helps the company avoid unpredictable expenses and allows the company to enjoy a more predictable income stream.

- Realty Income is focused on external growth through exploring accretive acquisition opportunities. In fact, solid property acquisitions volume at decent investment spreads aided the company's performance. In 2019, the company invested $3.7 billion in 789 properties and properties under development or in expansion including $797.8 million in 18 properties across the U.K. Particularly, an amount worth $1.2 billion of fourth-quarter acquisitions were related to the CIM portfolio buyout the company announced in September. The acquisitions of well-located commercial properties add to the company's scale, offering a competitive edge to its net lease industry. Continuing its buyout efforts, Realty Income made property acquisitions worth $486 million during the March-end quarter.

- In light of the coronavirus pandemic, apart from guidance withdrawal, Realty Income also apprised of its liquidity position and the measures undertaken to enhance the same to sail through these uncertain times. Under its revolving credit facility, the company borrowed an additional $1.2 billion. The total capacity of the revolving credit facility is $3 billion. As of May 1, 2020, the company had $1.2 billion of cash on hand and $1.1 billion remaining in the credit facility (excluding the $1-billion accordion feature). Further, Realty's Income has a well-laddered debt-maturity schedule, with only around $400 million maturing through 2021. Manageable near-term maturities and ample liquidity provide the company financial flexibility to navigate through the ongoing volatility and uncertainty and to withstand any credit crisis. Moreover, an all-time high fixed charge coverage ratio of 5.5 indicates sufficient cash flows available to meet fixed expenses. Realty Income has a credit rating of A- / A3 / BBB+ from Standard & Poor's / Moody's / Fitch, respectively, enabling it to procure debt financing at attractive cost.

- Furthermore, solid dividend payouts are arguably the biggest enticement for REIT shareholders, and Realty Income remains committed to that. In March, the company announced a hike in its common stock monthly cash dividend, denoting its 106th dividend increase since its NYSE listing in 1994. Notably, the company enjoys a trademark on the phrase "The Monthly Dividend Company". Importantly, the company has made 90 consecutive quarterly dividend hikes, which is encouraging. This retail REIT has generated a compound average annual dividend growth of around 4.5% since its listing on the NYSE. The company also joined the S&P 500 Dividend Aristocrats® Index, which is designed to measure the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. Given its financial position and lower debt-to-equity ratio compared to the industry, the latest dividend rate is likely to be sustainable.

Reasons To Sell:

- The escalating number of coronavirus cases has forced several retailers to close their stores, in order to contain the spread of the virus. Some retailers have also reduced store hours, while many others are keeping their e-retail operations running as consumers are now increasingly opting for online purchases. As a result, retail REITs, which have already been battling store closure and bankruptcy issues, have been affected because retail businesses depend on customer traffic and consumers are avoiding gathering in large public spaces. Moreover, the company's tenants from the theater, health and fitness, restaurant, and child care industries are being impacted due to government-mandated closures and social distancing requirements. Further, it has received numerous rent relief requests and expects rent collection in May to be worse relative to April.

Realty Income's substantial exposure to single tenant assets raises its risks associated with tenant default. Furthermore, rent collections, store closures and retail bankruptcies are concerning.

- Realty Income has substantial exposure to single tenant assets. In fact, of the company's 6,525 properties in its portfolio as of Mar 31, 2020, 6,490 (representing 99.5%) are single-tenant properties, while the remaining constitutes multi-tenant assets. However, single-tenant leases involve specific and significant risks associated with tenant default. Thus, in case of financial failure of, or default in payment by, a single tenant, the company's rental revenue from that property as well as the value of the property suffers significantly.

- Shares of Realty Income have declined 22.6% over the past three months, which is wider than its industry's decline of 22%. Moreover, the Zacks Consensus Estimate for current-year FFO per share has moved marginally south over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, there is limited upside potential for the stock.

Last Earnings Report

Realty Income Q1 FFO and Revenues Surpass Estimates

Quarter Ending	03/2020
Report Date	May 04, 2020
Sales Surprise	0.55%
EPS Surprise	3.53%
Quarterly EPS	0.88
Annual EPS (TTM)	3.39

Realty Income's first-quarter 2020 adjusted FFO (AFFO) per share of 88 cents surpassed the Zacks Consensus Estimate of 85 cents. The reported figure is also up 7.3% from the prior-year quarter's 82 cents.

Results were driven by improvement in same-store rent and healthy occupancy level, which aided top-line expansion.

Total revenues for the reported quarter came in at $414.3 million, up 16.9% year over year. The revenue figure also exceeded the Zacks Consensus Estimate of $412.1 million.

Quarter in Detail

During first-quarter 2020, same-store rents on 5,535 properties under lease inched up 0.2% to $321.5 million from the prior-year quarter. Portfolio occupancy of 98.5% as of Mar 31, 2020, expanded 20 bps year over year. Further, the company generated a rent recapture rate of 99% on re-leasing activity.

During the reported quarter, Realty Income invested $486 million in 65 properties and properties under development or expansion. This also includes $165.6 million in four properties in the U.K.

Around 36% of the rental revenues from acquisitions reported during the quarter came in from investment grade-rated tenants, their subsidiaries or affiliated companies.

The company sold 17 properties, generating net proceeds of $126.2 million, with a gain on sales of $38.5 million, during the January-March period.

Balance Sheet

Realty Income exited first-quarter 2020 with cash and cash equivalents of $41.8 million, down from the $54 million witnessed at the end of 2019. Furthermore, the company raised $752.4 million from the sale of common stock, at a weighted average price of $77.37 per share, during the quarter.

The company also completed the early redemption of its $250 million 5.750% notes due on January 2021 in the first quarter. This resulted in a $9.8-million loss on extinguishment of debt.

Moreover, the company has a $3-billion unsecured revolving credit facility. The revolving credit facility also has a $1-billion expansion feature. As of Mar 31, 2020, the company had balance of borrowings outstanding under its revolving credit facility of $615.2 million.

However, as a precautionary measure against the uncertainties prevailing due to the coronavirus pandemic, on Apr 9, the company raised an additional $1.2 billion on its credit facility to increase its cash position to $1.25 billion.

Outlook

In light of the coronavirus pandemic, the company withdrew its 2020 guidance on Apr 9. The company had earlier projected 2020 adjusted FFO per share of $3.50-$3.56, indicating annual growth of 5.4-7.2%. It is now of the opinion to not provide a revised guidance for the year during these uncertain times.

Recent News

Realty Income's May Rents Stand at 82%, April Receipts Rise – Jun 2, 2020

Realty Income announced contractual rent collections for May 2020 and updated the same for April.

As of Jun 1, 2020, the company collected 82% of contractual rent due for May across its total portfolio. Notably, a strong tenant roster possibly enabled the company to collect a significant rent amount despite the ongoing pandemic.

In fact, the company accumulated 82.1% of rent from its top 20 tenants and 98.2% from its investment grade tenants.

The company also reported its rental receipts for April with 84.2% of the contractual rent collected for the month across its total portfolio as of Jun 1, 2020. Earlier, April rent collections through May 1 stood at 82.9%.

Realty Income Announces 599th Consecutive Common Stock Monthly Dividend – May 12, 2020

Realty Income announced a common stock monthly cash dividend of 23.30 cents per share. This marked the company's 598th consecutive common stock monthly dividend, representing an annualized amount of $2.796 per share. The dividend will be paid out on Jun 15 to its stockholders of record at the close of business on Jun 1, 2020.

Valuation

Realty Income's shares have been down 17% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 23.9% and 12.9% in the past year.

The S&P 500 Index has been up 9.1% both in the trailing 12-month period.

The stock is currently trading at 17.53X forward 12-month FFO, which compares to 12.13X for the Zacks sub-industry, 16.54X for the Zacks sector and 22.30X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.36X and as low as 11.97X, with a 5-year median of 18.84X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $64 price target reflects 18.65X FFO.

Valuation Multiples - O

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.53	12.13	16.54	22.30
	5-Year High	24.36	19.44	16.54	22.30
	5-Year Low	11.97	9.72	11.57	15.23
	5-Year Median	18.84	14.84	13.96	17.49
P/S F12M	Current	12.21	6.65	5.80	3.47
	5-Year High	16.49	13.91	6.69	3.47
	5-Year Low	8.49	5.43	4.98	2.53
	5-Year Median	12.88	8.19	6.06	3.02
P/B TTM	Current	1.98	2.46	2.31	4.21
	5-Year High	2.90	5.57	2.90	4.56
	5-Year Low	1.41	1.77	1.71	2.83
	5-Year Median	2.29	3.36	2.53	3.66

As of 06/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 20% (202 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Agree Realty Corporation **(ADC)**	Neutral	3
CBLAssociates Properties, Inc. **(CBL)**	Neutral	3
Four Corners Property Trust, Inc. **(FCPT)**	Neutral	4
Getty Realty Corporation **(GTY)**	Neutral	3
National Retail Properties **(NNN)**	Neutral	3
Regency Centers Corporation **(REG)**	Neutral	4
Spirit Realty Capital, Inc. **(SRC)**	Neutral	3
STORE Capital Corporation **(STOR)**	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Retail

Industry Peers

	O	X Industry	S&P 500	NNN	SRC	STOR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	D	D
Market Cap	20.66 B	1.49 B	22.50 B	6.33 B	3.50 B	5.57 B
# of Analysts	12	6	14	10	5	10
Dividend Yield	4.65%	6.87%	1.88%	5.60%	7.35%	6.14%
Value Score	D	-	-	D	D	D
Cash/Price	0.00	0.14	0.06	0.04	0.07	0.13
EV/EBITDA	26.59	12.90	12.98	15.73	15.91	11.48
PEG Ratio	4.02	5.73	3.05	9.72	NA	NA
Price/Book (P/B)	1.98	1.28	3.11	1.60	1.10	1.21
Price/Cash Flow (P/CF)	18.65	8.06	12.18	12.77	9.30	10.13
P/E (F1)	17.95	11.26	22.19	13.71	12.85	12.24
Price/Sales (P/S)	13.32	4.13	2.40	9.28	6.65	8.11
Earnings Yield	5.57%	8.88%	4.31%	7.28%	7.79%	8.16%
Debt/Equity	0.72	1.18	0.76	0.81	0.80	0.64
Cash Flow ($/share)	3.23	2.19	7.01	2.88	3.66	2.25
Growth Score	B	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	4.93%	1.39%	10.87%	5.20%	-5.72%	8.30%
Proj. EPS Growth (F1/F0)	0.95%	-10.45%	-10.74%	-2.72%	-20.78%	-6.43%
Curr. Cash Flow Growth	12.23%	0.37%	5.48%	11.44%	-1.18%	26.71%
Hist. Cash Flow Growth (3-5 yrs)	10.10%	5.61%	8.55%	9.67%	11.14%	36.02%
Current Ratio	1.25	2.53	1.29	6.00	1.99	0.89
Debt/Capital	41.97%	54.42%	44.75%	42.80%	43.10%	39.08%
Net Margin	30.44%	22.53%	10.59%	40.44%	22.00%	43.97%
Return on Equity	4.95%	6.04%	16.29%	7.10%	3.75%	6.90%
Sales/Assets	0.09	0.13	0.55	0.09	0.09	0.08
Proj. Sales Growth (F1/F0)	9.96%	-4.14%	-2.65%	0.17%	8.70%	0.38%
Momentum Score	D	-	-	C	B	F
Daily Price Chg	5.17%	8.66%	2.42%	9.26%	11.18%	9.77%
1 Week Price Chg	6.06%	3.14%	4.60%	1.62%	-0.11%	3.31%
4 Week Price Chg	14.63%	25.98%	13.40%	21.33%	22.12%	20.76%
12 Week Price Chg	-18.22%	-16.51%	12.78%	-20.71%	-16.00%	-20.31%
52 Week Price Chg	-17.00%	-34.68%	0.89%	-32.55%	-24.00%	-34.69%
20 Day Average Volume	3,283,236	1,448,836	2,528,787	1,912,738	864,153	7,284,751
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.74%
(F1) EPS Est 4 week change	-0.73%	-2.54%	-0.14%	-0.44%	0.00%	-2.29%
(F1) EPS Est 12 week change	-4.87%	-10.79%	-16.00%	-6.58%	-21.14%	-7.91%
(Q1) EPS Est Mthly Chg	1.61%	-3.98%	-0.02%	0.18%	0.00%	-3.98%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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