

Realty Income Corp. (O)

\$73.32 (As of 03/09/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

Summary

Realty Income's better-than-expected fourth-quarter 2019 adjusted funds from operations per share reflect improvement in same-store rent and a healthy occupancy level. The company is firmly focused on external growth through exploring accretive acquisition opportunities and it invested \$3.7 billion including \$797.8 million in the U.K. during 2019. It derives majority of its annualized retail rental revenues from tenants belonging to service, non-discretionary and low-price retail businesses, which are less susceptible to economic recessions and competition from Internet retailing. Also, the stock has outperformed its industry over the past six months. Going forward, accretive acquisitions and a solid balance sheet augur well for the long haul though retail apocalypse and a substantial exposure to single-tenant assets remain concerns.

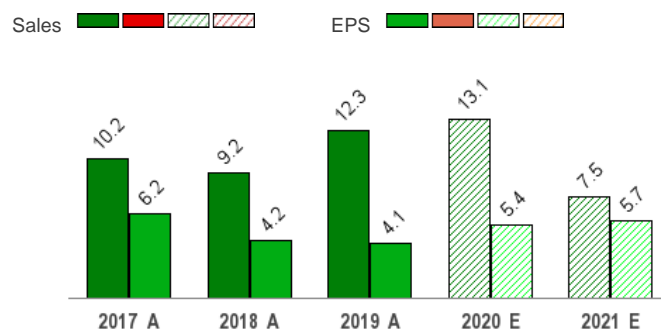
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.92 - \$66.21
20 Day Average Volume (sh)	3,311,414
Market Cap	\$25.1 B
YTD Price Change	-0.4%
Beta	0.22
Dividend / Div Yld	\$2.79 / 3.8%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/06/2020
Earnings ESP	0.6%
P/E TTM	22.0
P/E F1	21.0
PEG F1	4.7
P/S TTM	16.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	453 E	462 E	472 E	483 E	1,815 E
2020	410 E	419 E	427 E	437 E	1,688 E
2019	354 A	365 A	374 A	398 A	1,492 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$0.92 E	\$0.93 E	\$0.95 E	\$3.70 E
2020	\$0.86 E	\$0.87 E	\$0.88 E	\$0.90 E	\$3.50 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 03/09/2020. The reports text is as of 03/10/2020.

Overview

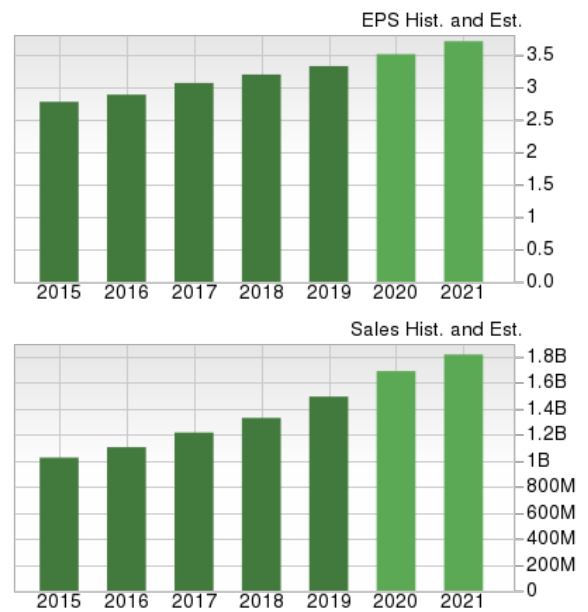
Realty Income, founded in 1969 and headquartered in San Diego, CA, is engaged in the acquisition and management of freestanding commercial properties which reap rental revenue under long-term net lease agreements. The company is structured as a real estate investment trust, or REIT, and has earned its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

As of Dec 31, 2019, Realty Income's portfolio comprised 6,483 properties, situated across 49 states in the United States, Puerto Rico and the U.K. These properties are leased to 301 different commercial tenants, belonging to 50 separate industries. As of the same date, Realty Income's retail properties generated 83.0% of rental revenues while Industrial properties contributed to 11.5%. In addition, office assets reaped 3.7% of rental revenues and the remaining 1.8% was produced by agriculture assets.

In May, 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:

- ▲ 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 50 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 more than 90% 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. These efforts boost the stability of the rental revenue generated from these properties.
- ▲ 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 Dec 31, 2019, its portfolio occupancy was 98.6%, denoting an increase of 30 basis points from the prior quarter. Management expects occupancy to be approximately 98% this year. Additionally, its same store rent growth depicted limited operational volatility.
- ▲ 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. 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. Moreover, with a robust investment pipeline, both on the domestic and international fronts, the company expects to invest \$2.25-\$2.75 billion in 2020, based on present market conditions.
- ▲ The company continues to maintain a conservative capital structure. It has modest leverage, enjoys low cost of capital and ample liquidity, which provide financial flexibility. The company's unsecured revolving credit facility comprises a \$3 billion revolving credit facility, with an initial term that expires in March 2023 (subject to two six-month options to extend) and a \$250-million term loan due March 2024. The revolving credit facility also has a \$1-billion expansion feature. As of Dec 31, 2019, the company had balance of borrowings outstanding under its revolving credit facility of \$704.3 million. Moreover, the company recently closed 9 million common stock offering, leading to net proceeds after underwriting discounts and commissions of roughly \$677 million. Particularly, the company plans to use the proceeds to repay borrowings outstanding under its \$3-billion unsecured revolving credit facility. Moreover, it has a well-laddered debt maturity schedule and ended 2019 with net debt/adjusted EBITDA ratio of 5.5x.
- ▲ Furthermore, solid dividend payouts are arguably the biggest enticement for REIT shareholders, and Realty Income remains committed to that. In January, the company announced a hike in its common stock monthly cash dividend, denoting its 105th 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 89 consecutive quarterly dividend hikes, which is encouraging. In fact, this retail REIT has generated a compound average annual dividend growth of around 4.6% since its listing on the NYSE. The company also recently 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.

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.

Reasons To Sell:

- ▼ Despite Realty Income's effort to diversify the tenant base, its tenants in the convenience stores and drug stores industry accounted for 11.6% and 8.6% each of the company's rental revenues for the quarter ended Dec 31, 2019. This makes the company's results susceptible to any adverse changes in these industries. Moreover, the choppy environment and tenant credit issues remain concerns for the retail real estate industry.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ Realty Income has substantial exposure to single tenant assets. In fact, of the company's 6,483 properties in its portfolio as of Dec 31, 2019, 6,452 (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 outperformed the industry it belongs to over the past six months. During this period, the stock has slipped 0.2% compared with the industry's decrease of 15.3%. However, the Zacks Consensus Estimate for current-year FFO per share has remained unchanged over the past two months. Therefore, given the above-mentioned concerns and a lack of positive estimate revisions, there is limited upside potential for the stock.

Realty Income's substantial exposure to single tenant assets raises its risks associated with tenant default. Furthermore, store closures and retailers' bankruptcies are major concerns.

Last Earnings Report

Realty Income Q4 FFO & Revenues Top Estimates, Rents Up

Realty Income's fourth-quarter 2019 adjusted FFO per share of 86 cents surpassed the Zacks Consensus Estimate of 83 cents. The reported figure is also up 8.9% from the prior-year quarter's reported tally of 79 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 \$397.5 million, up 16% year over year. The revenue figure also exceeded the Zacks Consensus Estimate of \$387.3 million.

For full-year 2019, the company reported adjusted FFO per share of \$3.32, up 4.1% from the prior year's \$3.19. Revenues for the full year also climbed 12.3% year on year to \$1.49 billion.

Quarter in Detail

During fourth-quarter 2019, same-store rents on 4,811 properties under lease increased 2% to \$296.5 million from the prior-year quarter. Portfolio occupancy of 98.6% as of Dec 31, 2019, expanded 30 basis points (bps) sequentially and remained flat year over year. Further, the company generated a rent recapture rate of 106.2% on re-leasing activity.

During the reported quarter, Realty Income invested \$1.7 billion in 556 properties and properties under development or expansion. This also includes \$221 million in five properties in the U.K.

Around 47% 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 29 properties, generating net proceeds of \$36.3 million, with a gain on sales of \$14.2 million, during the October-December period.

Liquidity

Realty Income exited fourth-quarter 2019 with cash and cash equivalents of around \$54 million, up from the \$10.4 million witnessed at the end of 2018. Furthermore, the company raised \$582.2 million from the sale of common stock, at a weighted average price of \$75.52 per share, during the quarter.

Moreover, the company has a \$3.25-billion unsecured credit facility, comprising a \$3-billion revolving credit facility and a \$250-million term loan. As of Dec 31, 2019, the company had balance of borrowings outstanding under its revolving credit facility of \$704.3 million.

Outlook

Realty Income expects full-year 2020 adjusted FFO per share of \$3.50-\$3.56, indicating annual growth of 5.4-7.2%.

Notably, with a robust investment pipeline, both domestic and international, the company expects to invest \$2.25-\$2.75 billion in 2020 based on present market conditions.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	2.65%
EPS Surprise	3.61%
Quarterly EPS	0.86
Annual EPS (TTM)	3.33

Recent News

Realty Income Increases Strength With Stock Offering of 9 Million — Mar 2, 2020

Realty Income closed 9 million share common stock offering, leading to net proceeds after underwriting discounts and commissions of roughly \$677 million. The underwriters have also been granted a 30-day option to purchase up to 1.35 million additional shares of common stock.

The common stock offering will boost the company's financial flexibility and help meet its financial obligations efficiently. Particularly, the company plans to use the proceeds to repay borrowings outstanding under its \$3-billion unsecured revolving credit facility. The amount left unused for this purpose, will be employed in funding potential investment opportunities and/or for other general corporate purposes.

Realty Income Announces 596th Consecutive Common Stock Monthly Dividend — Feb 13, 2020

Realty Income announced a common stock monthly cash dividend of 23.25 cents per share. This marked the company's 596th consecutive common stock monthly dividend, representing an annualized amount of \$2.79 per share. The dividend will be paid out on Mar 13 to its stockholders of record at the close of business on Mar 2, 2020.

Notably, on Jan 14, Realty Income announced its 105th common stock monthly dividend hike since the company's NYSE listing in 1994. The company announced a dividend worth 23.25 cents per share compared with 22.75 cents paid out earlier, reflecting 3.1% growth from the February 2019 payment. The increased dividend was paid out on Feb 14 to the company's shareholders of record as of Feb 3, 2020.

Valuation

Realty Income's shares have been up 3.2% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 13.1% and 13.9%, over the past year, respectively.

The S&P 500 Index has been down 2.4% over the past year.

The stock is currently trading at 20.65X forward 12-month FFO, which compares with the 12.76X for the Zacks sub-industry, 11.81X for the Zacks sector and 15.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.36X and as low as 14.96X, with a 5-year median of 18.86X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 21.97X FFO.

The table below shows summary valuation data for O.

Valuation Multiples - O					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.65	12.76	11.81	15.75
	5-Year High	24.36	19.44	16.21	19.34
	5-Year Low	14.96	12.57	11.81	15.18
	5-Year Median	18.86	14.97	13.97	17.42
P/S F12M	Current	14.75	7.13	5.99	2.91
	5-Year High	16.49	13.91	6.64	3.44
	5-Year Low	9.67	7.13	5.39	2.54
	5-Year Median	12.85	8.21	6.04	3
P/B TTM	Current	2.44	2.8	2.23	3.69
	5-Year High	2.9	5.57	2.89	4.56
	5-Year Low	1.81	2.8	1.83	2.85
	5-Year Median	2.29	3.41	2.52	3.63

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Top Peers

Agree Realty Corporation (ADC)	Neutral
Four Corners Property Trust, Inc. (FCPT)	Neutral
Getty Realty Corporation (GTY)	Neutral
National Retail Properties (NNN)	Neutral
Regency Centers Corporation (REG)	Neutral
Spirit Realty Capital, Inc. (SRC)	Neutral
STORE Capital Corporation (STOR)	Neutral
CBL & Associates Properties, Inc. (CBL)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	O Neutral	X Industry	S&P 500	NNN Neutral	SRC Neutral	STOR Neutral
VGM Score	D	-	-	D	F	C
Market Cap	25.13 B	2.24 B	19.13 B	8.39 B	4.21 B	7.19 B
# of Analysts	13	5.5	13	10	6	10
Dividend Yield	3.81%	5.68%	2.26%	4.21%	6.09%	4.76%
Value Score	F	-	-	F	F	F
Cash/Price	0.00	0.02	0.05	0.00	0.00	0.01
EV/EBITDA	31.15	14.32	11.99	19.06	17.30	13.74
PEG Ratio	4.70	4.15	1.68	6.05	NA	NA
Price/Book (P/B)	2.44	1.52	2.64	2.10	1.26	1.54
Price/Cash Flow (P/CF)	22.73	9.71	10.70	16.96	11.22	13.08
P/E (F1)	21.00	11.66	15.44	17.01	12.90	14.56
Price/Sales (P/S)	16.85	5.40	2.05	12.52	8.15	10.79
Earnings Yield	4.77%	8.58%	6.47%	5.87%	7.75%	6.86%
Debt/Equity	0.81	1.04	0.70	0.75	0.66	0.53
Cash Flow (\$/share)	3.23	2.19	7.01	2.88	3.66	2.25
Growth Score	B	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	5.04%	1.65%	10.85%	5.48%	-4.68%	8.44%
Proj. EPS Growth (F1/F0)	5.52%	1.08%	6.25%	4.13%	-4.69%	1.61%
Curr. Cash Flow Growth	12.23%	1.70%	6.09%	11.44%	-1.18%	26.71%
Hist. Cash Flow Growth (3-5 yrs)	10.10%	5.61%	8.52%	9.67%	11.14%	36.02%
Current Ratio	1.33	1.15	1.24	1.80	0.35	0.50
Debt/Capital	44.63%	50.79%	42.57%	40.82%	38.68%	34.46%
Net Margin	29.26%	23.52%	11.69%	43.34%	33.94%	42.81%
Return on Equity	4.89%	6.53%	16.74%	7.70%	5.93%	6.74%
Sales/Assets	0.09	0.13	0.54	0.09	0.09	0.09
Proj. Sales Growth (F1/F0)	13.15%	0.85%	3.76%	6.26%	15.22%	12.93%
Momentum Score	C	-	-	B	A	B
Daily Price Chg	-4.34%	-9.51%	-7.65%	-7.74%	-9.18%	-8.32%
1 Week Price Chg	5.88%	0.00%	-0.67%	4.19%	-0.66%	-2.31%
4 Week Price Chg	-8.44%	-20.91%	-19.26%	-14.56%	-24.60%	-26.52%
12 Week Price Chg	0.38%	-21.19%	-17.26%	-6.20%	-17.55%	-21.35%
52 Week Price Chg	3.66%	-18.28%	-6.83%	-7.39%	8.43%	-9.56%
20 Day Average Volume	3,311,414	1,169,120	2,684,709	1,114,905	1,038,423	2,587,650
(F1) EPS Est 1 week change	-0.08%	0.00%	0.00%	0.00%	0.20%	0.00%
(F1) EPS Est 4 week change	0.09%	-0.45%	-0.06%	0.14%	0.66%	-0.15%
(F1) EPS Est 12 week change	-0.13%	-1.72%	-0.46%	0.14%	1.39%	-0.20%
(Q1) EPS Est Mthly Chg	0.29%	-0.40%	-0.40%	0.10%	0.04%	0.00%

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	F
Growth Score	B
Momentum Score	C
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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