

Realty Income Corp. (O)

\$76.15 (As of 01/16/20)

Price Target (6-12 Months): **\$81.00**

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:F

Value: F

Growth: C

Momentum: F

Summary

Realty Income recently announced the 105th common stock monthly dividend hike, since its NYSE listing. Late in 2019, the company closed the first tranche of the transaction with CIM Real Estate Finance Trust, by acquiring 411 properties for \$1.035 billion. The company's shares have outperformed its industry over the past six months. Realty Income derives majority of its annualized retail rental revenues from tenants belonging to service, non-discretionary and low-price retail business. Such businesses are less susceptible to economic recessions, and competition from Internet retailing. Accretive acquisitions and solid balance-sheet strength augur well for long-term growth, though the retail apocalypse will likely be a hurdle in near term, while substantial single-tenant assets in its portfolio expose it to tenant default risk.

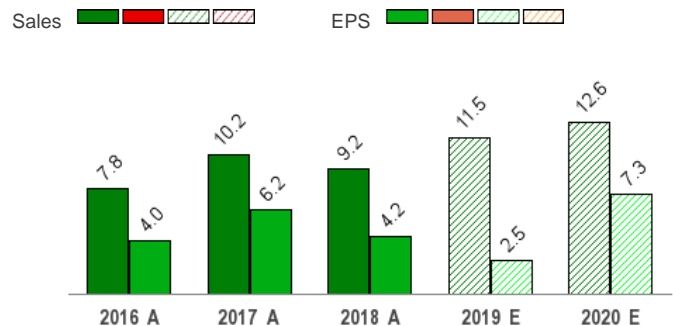
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.17 - \$63.80
20 Day Average Volume (sh)	1,546,949
Market Cap	\$24.8 B
YTD Price Change	3.4%
Beta	0.00
Dividend / Div Yld	\$2.79 / 3.6%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 21% (201 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/19/2020
Earnings ESP	-1.7%
P/E TTM	23.4
P/E F1	21.7
PEG F1	4.9
P/S TTM	17.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	404 E	413 E	421 E	429 E	1,667 E
2019	354 A	365 A	374 A	387 E	1,481 E
2018	318 A	329 A	338 A	343 A	1,328 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.86 E	\$0.87 E	\$0.88 E	\$0.90 E	\$3.51 E
2019	\$0.82 A	\$0.82 A	\$0.83 A	\$0.83 E	\$3.27 E
2018	\$0.79 A	\$0.80 A	\$0.81 A	\$0.79 A	\$3.19 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 01/16/2020. The reports text is as of 01/17/2020.

Overview

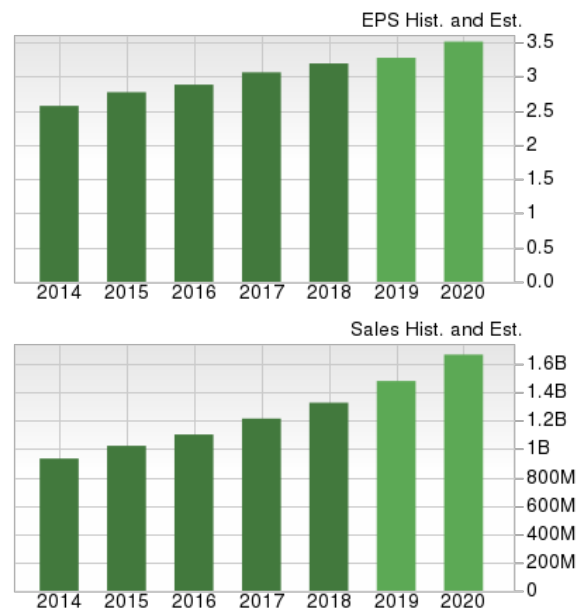
Realty Income, founded in 1969 and headquartered in San Diego, CA, is engaged in the acquisition and management of freestanding commercial properties which reap rental revenue under long-term net lease agreements. The company is structured as a real estate investment trust, or REIT, and has earned its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

As of Sep 30, 2019, Realty Income's portfolio comprised 5,964 properties, situated in 49 states in the United States, Puerto Rico and the U.K. These properties are leased to 274 different commercial tenants, belonging to 49 separate industries. As of the same date, Realty Income's retail properties generated 82.7% of rental revenues, while Industrial properties contributed 11.6%. In addition, office assets reaped 3.8% of rental revenues and the remaining 1.9% 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.

Moreover, in September, Realty Income announced that it has agreed to acquire 454 single-tenant retail properties from CIM Real Estate Finance Trust, Inc. for around \$1.25 billion in cash. In December, Realty Income announced closing the first tranche of this transaction by acquiring 411 properties for \$1.035 billion. The acquisitions of the residual properties are likely to take place in late 2019 and/or early 2020 for roughly \$207 million, subject to closing norms.

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 49 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 Sep 30, 2019, portfolio occupancy was 98.3%. 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. The company has invested approximately \$2 billion in high quality real estate during the first nine months of 2019, including concluding its first-ever international real estate investment in the U.K. Moreover, in September, Realty Income has agreed to acquire 454 single-tenant retail properties from CIM Real Estate Finance Trust, Inc. for around \$1.25 billion in cash. In December, Realty Income announced closing the first tranche of this transaction by acquiring 411 properties for \$1.035 billion. The acquisitions of the residual properties are likely to take place in late 2019 and/or early 2020 for roughly \$207 million, subject to closing norms. The buyout of these single-tenant retail properties, with approximately 5.1 million leasable square feet, will add to the company's scale and offer a competitive edge in its net lease industry. Leased to more than 55 different tenants across 20 industries, this portfolio reaps 58% of total rental revenues from investment-grade rated companies or their subsidiaries.
- ▲ The company continues to maintain a conservative capital structure. It has modest leverage, robust liquidity, and continued access to attractively priced equity and debt capital. The company's \$3.25-billion unsecured credit facility comprises a \$3-billion revolving credit facility and a \$250-million term loan. The revolving credit facility also has a \$1-billion expansion feature and an August 2019 amendment to the credit facility allows for borrowings under the revolving credit facility in up to 14 currencies, including U.S. Dollars. Moreover, the company ended the third quarter with full availability on this \$3-billion revolving credit facility, \$236 million of cash on hand, and a net debt-to-EBITDA ratio of 5.0x. Moreover, it has well-laddered debt maturity schedule.
- ▲ 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" and the latest hike marks the company's 595 consecutive monthly dividend payments throughout its 51-year operating history. Moreover, 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 is also a member of the S&P High Yield Dividend Aristocrats® index for having increased its dividend every year for more than 21 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 around 11.6% and 8.9% of the company's rental revenues for the quarter ended Sep 30, 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 a substantial exposure to single tenant assets. In fact, of the company's 5,964 properties in the portfolio, as of Sep 30, 2019, 5,934, or 99.5%, are single-tenant properties, and the remaining are 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 in the past six months. During this period, shares of the company have gained 8.6% compared with the industry's increase of 3.7%. However, the Zacks Consensus Estimate for current-year FFO per share was revised downward marginally over the past two months. Therefore, given the above-mentioned concerns and negative estimate revisions, there is limited upside potential to 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 Tops Q3 FFO Estimates, Misses on Revenues

Realty Income's third-quarter 2019 adjusted FFO per share of 83 cents came in line with the Zacks Consensus Estimate. The reported figure is also up 2.5% from the prior-year quarter's reported tally of 81 cents.

Results were driven by improvement in same-store rent and top-line expansion.

Total revenues for the reported quarter came in at \$374.2 million, up 10.7% year over year. However, the revenue figure lagged the Zacks Consensus Estimate of \$375.8 million.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-0.42%
EPS Surprise	0.00%
Quarterly EPS	0.83
Annual EPS (TTM)	3.26

Quarter in Detail

During third-quarter 2019, same-store rents on 4,836 properties under lease inched up 1.2% to \$293.7 million from the prior-year quarter. Portfolio occupancy of 98.3% as of Sep 30, 2019, shrunk 50 basis points (bps) year over year and remained flat sequentially.

Further, the company had 102 properties available for lease, out of a total of 5,964 properties in the portfolio as of Sep 30, 2019, compared with 102 properties as of Jun 30, 2019. Additionally, during the quarter, the company re-leased 29 properties to existing and new tenants, at a rent recapture rate of 101.5 %.

Portfolio Activity

During the third quarter, Realty Income invested \$411.5 million in 51 properties, bringing the company's total year-to-date investments to more than \$2 billion. This includes £22.2 million (or nearly \$27.6 million) of the company's international real estate investment in the U.K.

The assets are under long-term, net lease agreements, with a weighted average lease term of around 9.3 years. Around 56% of the rental revenues from acquisitions reported during the quarter came in from investment grade-rated tenants and their subsidiaries.

The company sold 27 properties for \$22.5 million, with a gain on sales of \$1.7 million, during the July-September period.

Liquidity

Realty Income exited third-quarter 2019 with cash and cash equivalents of around \$236.1 million, up from \$10.4 million witnessed at the end of 2018. Furthermore, the company raised \$572.4 million from the sale of common stock, at a weighted average price of \$74.41 per share, during the reported 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 Sep 30, 2019, the company had no outstanding borrowings under its revolving credit facility.

Outlook

Realty Income expects full-year 2019 adjusted FFO per share of \$3.29-\$3.34.

Recent News

Realty Income Hikes Monthly Dividend for 105th Time - Jan 14, 2020

Realty Income announced its 105th common stock monthly dividend hike, since the company's NYSE listing in 1994. The company will now pay 23.25 cents per share compared with the 22.75 cents paid earlier. This marks 3.1% growth compared with the February 2019 payment.

The increased dividend will be paid on Feb 14, to shareholders on record as of Feb 3, 2020. The latest dividend rate marks an annualized amount of \$2.79 per share versus the prior rate of \$2.73 per share.

Solid dividend payouts are the biggest enticement for REIT investors and Realty Income remains committed to boosting shareholder wealth. The company enjoys a trademark of the phrase "The Monthly Dividend Company". The latest hike comes by a marginal figure from the prior dividend paid, but marks the company's 595 consecutive monthly dividend payments throughout its 51-year operating history. Moreover, the company has made 89 consecutive quarterly dividend hikes, which is encouraging. In fact, this retail REIT has witnessed compound average annual dividend growth of around 4.6% since its listing on the NYSE.

Realty Income Acquires 411 Properties From CIM Real Estate - Dec 3, 2019

Realty Income recently closed the first tranche of the previously-announced transaction with CIM Real Estate Finance Trust, Inc. ("CMFT") by acquiring 411 properties for \$1.035 billion.

The transaction marks a major move to boost Realty Income's portfolio. The acquisitions of the residual properties are likely to take place in late 2019 and/or early 2020 for roughly \$207 million, subject to closing norms.

Announced this September, the total portfolio transaction involves acquisition of 454 single-tenant retail properties from CIM Real Estate Finance Trust, Inc., for around \$1.25 billion. The buyout of these single-tenant retail properties, with approximately 5.1 million leasable square feet, will add to the company's scale and offer a competitive edge in its net lease industry. Leased to more than 55 different tenants across 20 industries, this portfolio reaps 58% of total rental revenues from investment-grade rated companies or their subsidiaries.

According to the company's previous press release, the portfolio's top 10 tenants generate 66.2% of the total portfolio rent. The roster includes names like Dollar General generates 15.8% of the total portfolio rent), Walgreens (14.8%) and Dollar Tree / Family Dollar (8.7%) among others.

Moreover, Realty Income expects the total portfolio transaction to be executed at approximately 7% cash cap rate. This will lead to an investment spread relative to its first-year weighted average cost of capital, well exceeding the company's historical average.

It also expects to assume the existing mortgage debt, aggregating around \$131 million, on completion of the buyout, at a weighted average interest rate of 4.5%, and a weighted average remaining term to maturity of roughly five years.

Valuation

Realty Income's shares have been up 17.8% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.3% and 10.5% in the past year, respectively.

The S&P 500 index is up 22.2% in the past year.

The stock is currently trading at 21.64X forward 12-month FFO, which compares to 15.01X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.97X 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 18.79X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$81 price target reflects 23.02X FFO.

The table below shows summary valuation data for O.

Valuation Multiples - O					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.64	15.01	14.79	18.97
	5-Year High	24.36	19.44	16.21	19.34
	5-Year Low	14.96	12.57	12.01	15.17
	5-Year Median	18.79	15.13	13.98	17.44
P/S F12M	Current	14.83	8.31	6.53	3.53
	5-Year High	16.49	13.91	6.61	3.53
	5-Year Low	9.67	7.13	5.2	2.54
	5-Year Median	12.74	8.31	6.04	3
P/B TTM	Current	2.66	3.36	2.83	4.5
	5-Year High	2.9	5.57	2.89	4.5
	5-Year Low	1.81	2.83	1.83	2.85
	5-Year Median	2.27	3.44	2.5	3.61

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



Top Peers

Agree Realty Corporation (ADC)	Neutral
CBL & Associates Properties, Inc. (CBL)	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

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	F	-	-	F	D	D
Market Cap	24.82 B	2.78 B	24.61 B	9.53 B	5.10 B	8.93 B
# of Analysts	13	6	13	10	4	10
Dividend Yield	3.59%	4.64%	1.74%	3.71%	4.89%	3.68%
Value Score	F	-	-	D	D	D
Cash/Price	0.01	0.03	0.04	0.04	0.07	0.00
EV/EBITDA	33.52	16.06	14.24	21.31	18.88	20.04
PEG Ratio	4.88	4.05	2.07	6.19	NA	3.75
Price/Book (P/B)	2.66	1.97	3.38	2.39	1.46	2.07
Price/Cash Flow (P/CF)	23.99	12.63	13.75	19.90	11.87	19.41
P/E (F1)	21.82	14.45	19.09	19.33	16.13	18.77
Price/Sales (P/S)	17.28	5.97	2.68	14.52	9.72	13.97
Earnings Yield	4.61%	6.90%	5.24%	5.17%	6.20%	5.34%
Debt/Equity	0.76	1.05	0.72	0.71	0.66	0.48
Cash Flow (\$/share)	3.17	2.26	6.94	2.79	4.31	1.96
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	5.20%	2.99%	10.56%	5.77%	-3.57%	8.56%
Proj. EPS Growth (F1/F0)	7.24%	2.38%	7.57%	4.28%	-4.83%	5.63%
Curr. Cash Flow Growth	3.39%	3.10%	14.73%	-0.42%	3.54%	26.26%
Hist. Cash Flow Growth (3-5 yrs)	13.12%	9.77%	9.00%	11.18%	19.49%	48.04%
Current Ratio	2.45	1.06	1.24	8.39	2.89	0.37
Debt/Capital	43.03%	51.19%	42.99%	38.15%	38.40%	32.29%
Net Margin	27.30%	24.75%	11.14%	38.62%	42.82%	44.09%
Return on Equity	4.61%	5.94%	17.16%	6.93%	8.03%	6.92%
Sales/Assets	0.09	0.13	0.55	0.09	0.10	0.08
Proj. Sales Growth (F1/F0)	12.61%	2.16%	4.16%	6.24%	11.67%	10.80%
Momentum Score	F	-	-	D	C	D
Daily Price Chg	0.22%	0.39%	0.89%	0.76%	1.13%	0.11%
1 Week Price Chg	-0.07%	-0.42%	0.39%	0.60%	1.52%	0.38%
4 Week Price Chg	5.25%	1.09%	2.65%	6.30%	5.01%	2.62%
12 Week Price Chg	-5.81%	-3.95%	7.55%	-3.95%	4.60%	-2.36%
52 Week Price Chg	17.50%	5.99%	22.12%	10.42%	38.31%	26.35%
20 Day Average Volume	1,546,949	738,236	1,536,375	690,136	913,452	1,475,881
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.07%	0.00%	0.00%	0.00%	0.50%	-0.05%
(F1) EPS Est 12 week change	-0.29%	-0.59%	-0.40%	0.03%	2.49%	-0.11%
(Q1) EPS Est Mthly Chg	-0.15%	0.00%	0.00%	0.00%	1.36%	0.00%

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	F
Growth Score	C
Momentum Score	F
VGM Score	F

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.

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