



# Camden Property Trust (CPT)

Updated August 2<sup>nd</sup>, 2024, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$117	<b>5 Year CAGR Estimate:</b>	0.7%	<b>Market Cap:</b>	\$12.3 B
<b>Fair Value Price:</b>	\$81	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	09/27/24 <sup>1</sup>
<b>% Fair Value:</b>	145%	<b>5 Year Valuation Multiple Estimate:</b>	-7.2%	<b>Dividend Payment Date:</b>	10/17/24 <sup>2</sup>
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$98	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## Overview & Current Events

Founded in 1993, and headquartered in Houston, Texas, Camden Property Trust is one of the largest publicly traded multifamily real estate companies in the United States. The company is structured as a Real Estate Investment Trust (REIT), owning, managing, and developing multifamily apartment communities. As of June 30<sup>th</sup>, 2023, Camden owned 172 properties containing 58,250 apartments. The \$12.3 billion market cap company has about 1,650 employees, and generates around \$1.54 billion in revenues annually.

On August 1<sup>st</sup>, 2024 Camden reported its Q2 results for the period ending June 30<sup>th</sup>, 2024. For the quarter, the company reported property revenue of \$387.2 million, a 0.4% increase compared to Q2 2023. Increased revenues were primarily driven by same-property revenue growth, which came in at 2.0%, offset by slightly lower occupancy, which fell from 95.5% to 95.3% between the two periods. However, due to same-property expenses growing by 2.7% during the period, same-property net operating income (NOI) grew by 1.6%.

Funds from Operations (FFO) totaled \$187.7 million, or \$1.61 per share, compared to \$184.0 million, or \$1.67 per share, in Q2 2023. Management revised their fiscal 2024 outlook, expecting FFO/share to land between \$6.67 and \$6.77 (from \$6.57 to \$6.81 previously). The midpoint of \$6.72 (up from \$6.69) implies a year-over-year decline of 0.9%.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$4.29	\$4.54	\$4.64	\$4.53	\$4.77	\$5.05	\$4.90	\$5.39	\$6.59	\$6.78	<b>\$6.72</b>	<b>\$8.18</b>
<b>DPS</b>	\$2.64	\$2.80	\$2.95	\$3.00	\$3.08	\$3.20	\$3.29	\$3.32	\$3.76	\$4.00	<b>\$4.12</b>	<b>\$5.01</b>
<b>Shares<sup>3</sup></b>	88.5	97.6	89.9	91.5	103.1	97.3	99.4	102.8	108.4	109.4	<b>108.4</b>	<b>115.0</b>

Note that we have presented FFO in the table above, as this better reflects the underlying earnings power of a REIT. Dating back to 2014, Camden has been able to grow both its dividend and FFO/share by compound annual growth rate of 5.2% and 4.7%, respectively. We are forecasting 5% annual growth over the intermediate-term – in-between these two historical marks – for a variety of reasons.

On the positive growth side, we are impressed by the resilience that the company demonstrated during the pandemic. Further, Camden's FFO/share grew in 2023, despite the underlying challenges residential REITs faced. General economic growth over the long-term ought to help drive growth as well. At the same time, it is expected that the Fed will start cutting rates this year, which could improve Camden's interest outlook, especially from 2025 onwards.

Offsetting these positive points is the idea that growth began to slow even before the pandemic, while same property revenue growth is set to remain weak this year, projected to be between 0.50% and 2.5%. We are also cautious of the fact that rates could remain elevated. It's also worth noting that, despite investors expecting cuts within 2024, it turns out we may be getting few, or even no cuts, as the economy remains hot. This could be a headwind to Camden's future growth prospects.

<sup>1</sup> Estimated ex-dividend date.

<sup>2</sup> Estimated dividend payment date.

<sup>3</sup> In millions.

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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>P/FFO</b>	15.7	16.8	17.6	16.6	20.2	20.7	19.4	25.0	20.5	15.8	<b>17.4</b>	<b>12.0</b>
<b>Avg. Yld.</b>	3.9%	3.7%	3.6%	3.7%	3.5%	3.1%	3.5%	2.5%	2.8%	3.7%	<b>3.5%</b>	<b>5.1%</b>

Over the past decade, Camden has traded with an average price-to-FFO ratio of just under 19. The stock's current P/FFO of 17.4 is on the lower end of its past valuation range. Given that interest rates remain high and that Camden's growth prospects do not appear particularly exciting, we maintain our fair multiple at 12x FFO. Note that the dividend was cut during the Great Recession, but has since recovered nicely as the company has increased each year since. This component ought to buoy investor returns over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	62%	62%	64%	66%	65%	63%	67%	62%	57%	59%	<b>61%</b>	<b>61%</b>

Camden has a competitive advantage in its position as one of the largest multifamily REITs in the U.S. Its scale and expertise allow it to leverage its experience across a wide portfolio of properties and actively pursue developments.

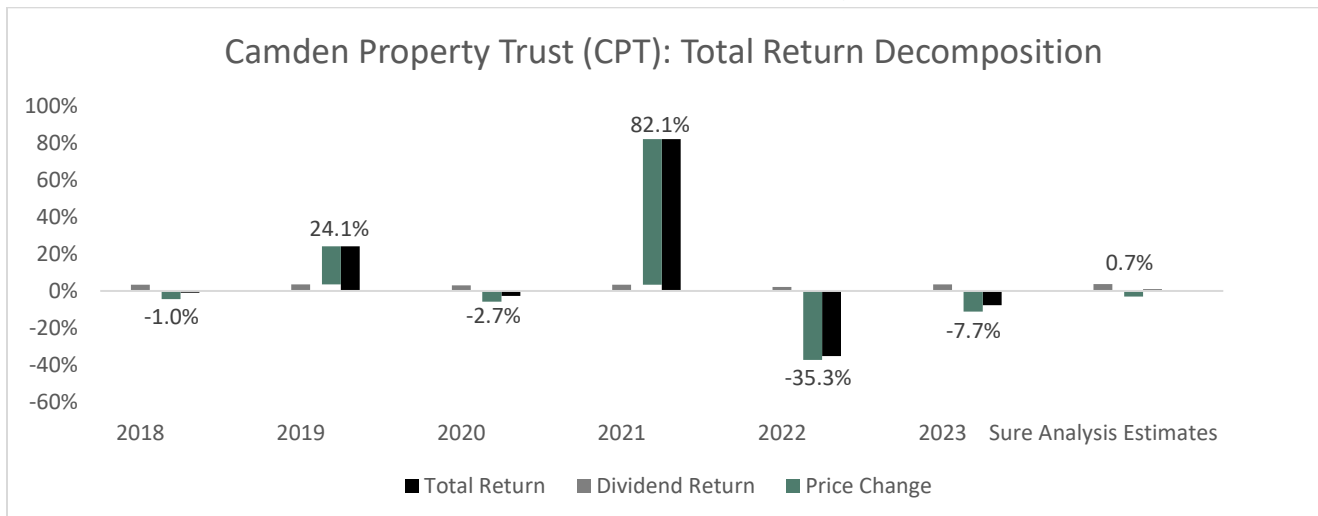
The company's FFO payout ratio has hovered in the 60% to 70% range for the last decade. We anticipate it will remain at slightly lower levels, with dividend growth tracking FFO growth over time. During the Great Recession, Camden posted FFO of \$2.90, \$1.68, \$2.72, and \$2.73 for the 2008 through 2011 stretch. Meanwhile, the dividend was cut from \$2.80 down to \$1.80 on an annual basis. This gives you some idea of the toll that recessions can take on the business, along with Camden's ability to bounce back. The company is holding up much better in the current environment, so far.

As of the most recent report, Camden held \$8.7 billion in real estate and \$9.1 billion in total assets against \$4.2 billion in total liabilities. The company's net debt-to-adjusted EBITDA ratio equaled 3.9x, improving from 4.2x last year.

## Final Thoughts & Recommendation

Camden is a leading multifamily REIT with a solid operating history. The company also posted a record FFO/share last year despite operating in a tough market environment. Still, we remain prudent regarding its medium-term prospects due to a challenging residential market despite potential rate cuts this year. We are forecasting a negligible annual total return potential, as a 4% growth in FFO/share and a 3.5% starting yield could be offset by a heavy valuation headwind. Shares earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	790	836	876	901	955	1028	1044	1144	1423	1542
Gross Profit	505	535	565	572	611	662	649	727	894	958
Gross Margin	64%	64%	64%	64%	64%	64%	62%	63.5%	62.8%	62.1%
SG&A Exp.	69	67	70	72	74	76	71	80	60	63
D&A Exp.	222	241	250	264	301	336	---	421	577	575
Operating Profit	214	227	245	236	236	250	211	226	261	324
Operating Margin	27%	27%	28%	26%	25%	24%	20%	19.8%	18.3%	21.0%
Net Profit	292	249	820	196	156	220	124	304	654	403
Net Margin	37%	30%	94%	22%	16%	21%	12%	26.6%	46.0%	26.1%
Free Cash Flow	-79	11	100	136	145	148	---	149	295	384
Income Tax	2	2	2	1	1	1	2	2	3	4

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6044	6038	6028	6174	6220	6749	7199	7977	9328	9384
Cash & Equivalents	154	11	237	368	34	23	420	613	10	260
Accounts Receivable	26	25	24	24	23	22	20	19	13	12
Total Liabilities	3087	3065	2856	2612	2782	3047	3682	3711	4271	4332
Accounts Payable	157	133	138	128	147	172	176	192	211	223
Long-Term Debt	2731	2725	2481	2205	2322	2524	3167	3170	3681	3715
Shareholder's Equity	2884	2896	3092	3483	3364	3629	3445	4167	4987	4981
LTD/E Ratio	0.95	0.94	0.80	0.63	0.69	0.70	0.92	0.76	0.74	0.75

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.0%	4.1%	13.6%	3.2%	2.5%	3.4%	1.8%	4.0%	7.6%	4.3%
Return on Equity	10.4%	8.6%	27.4%	6.0%	4.6%	6.3%	3.5%	8.0%	14.2%	8.0%
ROIC	5.3%	4.4%	14.4%	3.4%	2.7%	3.7%	1.9%	4.3%	8.1%	4.6%
Shares Out.	88.5	89.5	89.9	92.5	95.4	99.4	99.4	102.8	108	109
Revenue/Share	\$8.93	\$9.34	\$9.75	\$9.74	\$10.01	\$10.35	\$10.50	\$11.12	\$13.13	\$14.19
FCF/Share	-\$0.89	\$0.13	\$1.11	\$1.47	\$1.52	\$1.49	---	\$1.45	\$2.72	3.53

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

## Disclaimer

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