# Kimco Realty (KIM)

*Updated May 31th, 2018 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $15 | **5 Year CAGR Estimate:** | 12.2% | **Quality Percentile:** | N/A |
| **Fair Value Price:** | $17 | **5 Year Growth Estimate:** | 3.4% | **Momentum Percentile:** | N/A |
| **% Fair Value:** | 92% | **5 Year Valuation Multiple Estimate:** | 1.6% | **Total Return Percentile:** | N/A |
| **Dividend Yield:** | 7.2% | **5 Year Price Target** | $20 | **Valuation Percentile:** | |

## Overview & Current Events

Kimco Realty is a real estate investment trust company that owns, develops, manages and operates shopping-centers. Kimco Realty specializes in open-air shopping centers. The company was founded in 1973, is headquartered in New Hyde Park, NY, and is currently valued at $6.5 billion.

Kimco Realty's most recent quarterly results were announced on April 26, the company reported adjusted FFO (funds from operations) per share of $0.37, in line with the prior year's quarter. Revenues rose by 4% to $300 million, and same-property net operating income grew by 2.6% over the last year.

## Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FFOPS** | $2.47 | --- | $1.14 | $1.20 | $1.26 | $1.33 | $1.40 | $1.46 | $1.50 | $1.52 | ***$1.44*** | ***$1.70*** |
| **DPS** | $1.68 | $0.72 | $0.66 | $0.73 | $0.78 | $0.86 | $0.92 | $0.98 | $1.02 | $1.08 | ***$1.12*** | ***$1.30*** |

For REITs like Kimco Realty the best way to gauge their profitability and operating performance is to look at (adjusted) funds from operations on a per share basis. As REITs have high non-cash expenses (primarily depreciation expenses for their properties) their net earnings are usually relatively low and are therefore not reflective of the underlying earnings power. Kimco Realty's FFOPS is substantially lower than before the financial crisis, but the company has performed relatively well over the last couple of years – between 2010 and 2017 its FFO per share grew by 4.2% annually, although growth has been a bit slower during the most recent years.

During 2018 Kimco Realty's funds from operations will decline by a mid-single digits rate compared to 2017, the company has guided for adjusted FFO of $1.42 to $1.46 per share for the current year. The decline is due to a planned reduction of Kimco Realty's asset base. The company will sell $700 to $900 million worth of properties this year (21 shopping centers were sold for $220 million during Q1), which will lower Kimco Realty's rent proceeds as well as its funds from operations substantially. Kimco Realty plans to use the proceeds to pay down debt ($160 million was paid down during Q1) and to repurchase shares. Getting rid of weaker assets negatively impacts Kimco Realty's earnings power in the near future, but the debt reduction is prudent and could make the company stronger in the long run (as this will be a long-term benefit in a rising rates environment).

Once the asset sales are lapped Kimco Realty should be able to grow its FFO again (at a low-single digit rate) through rent increases and rising operating income – the underlying operating performance of Kimco Realty is strong, the company is not facing any problems due to e-commerce hurting sales at its shopping-centers.

## Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **P/FFO** | 13.2 | 8.7 | 13.4 | 14.3 | 15.1 | 16.2 | 16.4 | 17.3 | 18.8 | 13.5 | ***10.6*** | ***11.5*** |
| **Avg. Yld.** | 5.2% | 6.2% | 4.3% | 4.2% | 4.1% | 4.0% | 4.0% | 3.9% | 3.6% | 5.3% | ***7.2%*** | ***6.5%*** |

Kimco Realty's price to FFO multiple has been in a relatively wide range over the last decade, right now the valuation is closer to the lower end and well below the average of 14. Due to interest rates being substantially higher than during the last couple of years (which has made income stocks less popular as income investors are increasingly investing into bonds), it seems likely that Kimco Realty will continue to trade at a discount to the ten-year average, but valuations should still expand once KImco Realty resumes to grow its FFO (when the impact of asset sales has passed).

Kimco Realty's dividend yield of 7.2% is substantially higher than its dividend yield used to be over the last decade.

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

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GP/A | 6.5% | 5.9% | 6.2% | 6.3% | 6.1% | 6.8% | 7.3% | 7.7% | 7.9% | 7.7% | ***7.9%*** | ***8.0%*** |
| Debt/A | 55.3% | 48.8% | 46.5% | 49.3% | 49.4% | 50.6% | 52.2% | 54.3% | 51.9% | 53.1% | ***50.0%*** | ***46.0%*** |
| Int. Cov. | 2.0 | 1.0 | 1.3 | 1.4 | 1.1 | 1.4 | 1.5 | 2.2 | 1.4 | 1.8 | ***1.9*** | ***2.1*** |
| Payout | 68.0% | - | 57.9% | 60.8% | 61.9% | 64.7% | 65.7% | 67.1% | 68.0% | 71.1% | ***77.8%*** | ***76.5%*** |
| Std. Dev. | 65.0% | 79.4% | 27.4% | 29.9% | 18.6% | 21.9% | 14.0% | 21.9% | 17.7% | 21.5% | ***22.0%*** | ***20.0%*** |

Kimco Realty is financing about half of its assets via debt, which is not high leverage for a REIT. Kimco Realty's debt to assets ratio has declined a bit from the peak during 2015, and in 2018 the company has already lowered its debt levels further. At the end of Q1 notes payable were unchanged from the level they stood at in December 2017, but mortgages were lower by $400 million. At the end of Q1 the debt to assets ratio had already shrunken to 51.5%. Since Kimco Realty will continue to sell non-core assets and since the company does not need all of its cash flows to pay its dividends, investors can expect further debt reduction over the coming quarters and years.

Some mall REITs are under a lot of pressure due to declining traffic at the malls they own, which leads to lower occupancy rates and to lower rents at the same time. Kimco Realty's outdoor shopping-center focus has shielded the company from such developments so far. Traffic at its properties is solid, and its tenant base is strong as well (top tenants include Home Depot, TJX, Walmart, Kohl's, etc.). During the last financial crisis Kimco Realty did not remain profitable (using FFO), but during less severe recessions the company is not impacted significantly, as rent is fixed and Kimco Realty's tenants would not get into financial problems during an ordinary recession.

## Final Thoughts & Recommendation

Kimco Realty is a retail REIT that operates in a relatively attractive niche, it has solid tenants and same-property operating income continues to rise. Due to asset dispossessions the company will report lower profits during 2018, but over the coming years it should be able to grow profits slightly. Primarily due to a high dividend yield Kimco Realty offers attractive total return potential over the coming years.

## Total Return Breakdown by Year