Kimco Realty (KIM)

Updated July 27th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	9.9%	**Volatility Percentile:**	60.9%
Fair Value Price:	$17	**5 Year Growth Estimate:**	3.4%	**Momentum Percentile:**	17.5%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Valuation Percentile:**	66.0%
Dividend Yield:	6.7%	**5 Year Price Target**	$20	**Total Return Percentile:**	71.3%

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 $7.1 billion.

Kimco Realty announced its second quarter results on July 26. The company reported adjusted funds from operations of $0.37 per share, a small decline versus $0.41 per share in the previous year's second quarter. The decline in Kimco's profitability is based on a lower property count. The company sold 17 shopping centers for $330 million during Q2 alone. With that said, underlying growth is solid. The trust increased its occupancy rates, grew its same-property operating income by 4% and generated lease spreads of 12% during Q2.

Kimco raised its FFO per share guidance for fiscal 2018 marginally, to $1.43 - $1.46 during the Q2 earnings call.

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***

As REITs have high non-cash expenses (primarily depreciation expenses) 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 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, 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 ($400 million was paid down during H1) and to repurchase shares. Getting rid of weaker assets negatively impacts Kimco Realty's earnings power in the near future, but lower interest expenses will be a benefit in the long run.

Once the asset sales are lapped Kimco Realty should be able to grow its FFO again, 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	***11.6***	***11.5***
Avg. Yld.	5.2%	6.2%	4.3%	4.2%	4.1%	4.0%	4.0%	3.9%	3.6%	5.3%	***6.7%***	***6.5%***

Kimco Realty's valuation has moved up and down over the years, right now shares are valued very much in line with what we deem a fair valuation for the REIT's shares. The median multiple of 14 over the last decade will likely not be

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reached for the foreseeable future, as higher interest rates result in lower valuations for income stocks, including REITs such as Kimco. Kimco offers an attractive dividend yield of 6.7% right now.

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%***

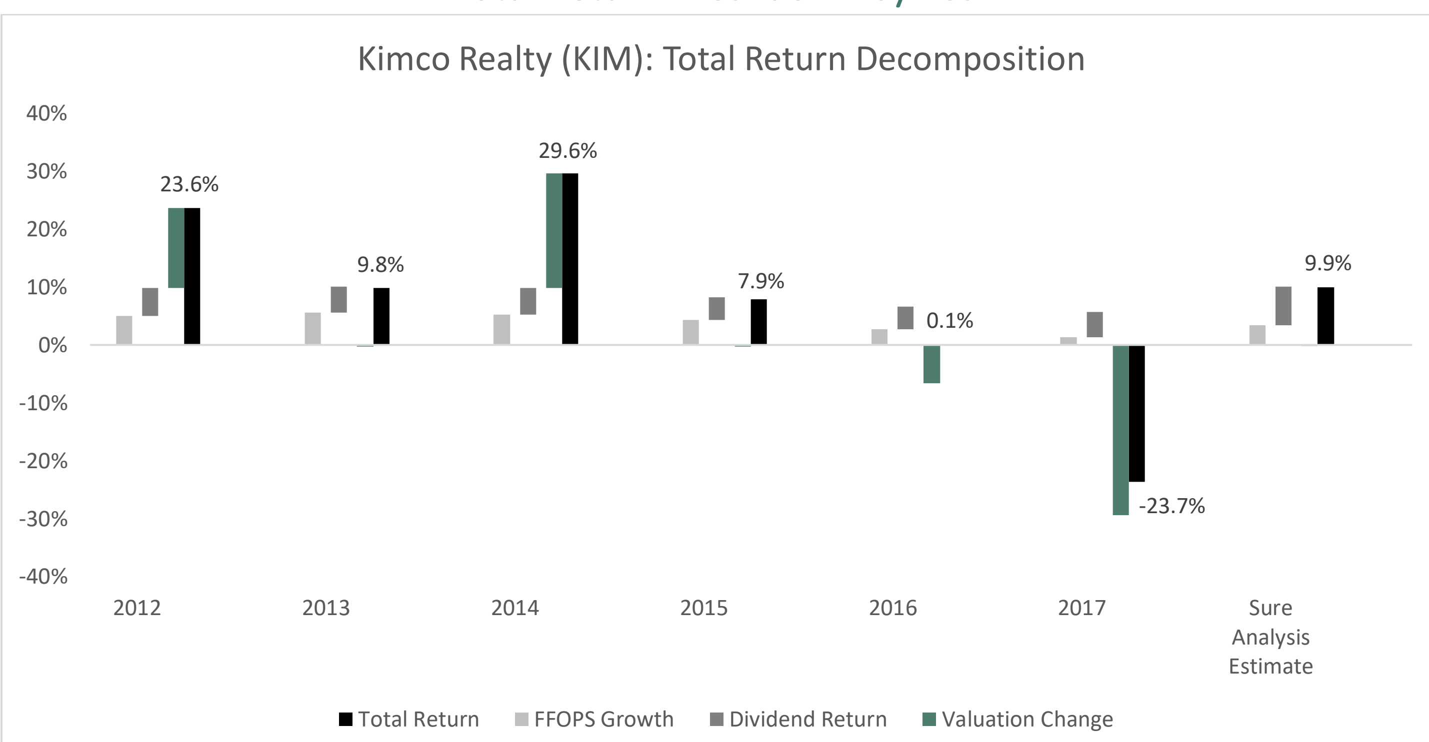
Kimco Realty is financing about half of its assets via debt, which is not high leverage for a REIT. Kimco Realty's debt to assets ratio has declined a bit from the peak during 2015, and in 2018 the company will continue to lower its debt levels. Since Kimco Realty will continue to sell non-core assets 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

Some retail REITs have gotten under pressure operationally, but Kimco's niche remains attractive. With strong tenants, rising occupancy and rising same-property income the company should be able to deliver earnings growth in the long run. Asset dispositions during 2018 will lead a small earnings decline, but that will strengthen the company in the long run. With its solid total return outlook and a valuation very close to fair value, Kimco earns a hold recommendation.

Total Return Breakdown by Year



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