Kimco Realty (KIM)

Updated October 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	11.4%	**Volatility Percentile:**	53.4%
Fair Value Price:	$17	**5 Year Growth Estimate:**	3.4%	**Momentum Percentile:**	31.7%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Growth Percentile:**	17.0%
Dividend Yield:	7.1%	**5 Year Price Target**	$20	**Valuation Percentile:**	59.4%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	65.1%

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 $6.7 billion.

Kimco Realty reported its third quarter earnings results on October 25. The company generated revenues of $283 million, a decline of 4% versus the prior year's quarter. This was due to asset sales, which lowered Kimco Realty's rent income. On a per-asset basis Kimco Realty performed well, as same-property net operating income rose by 2.2% during the third quarter. This was possible due to strong leasing spreads. New leases were, on average, 12% higher than the prior rent at the respective property. Kimco Realty's funds from operations totaled $0.36 per share during Q3 2017. The company raised its guidance for FFO per share to $1.44 to $1.46 during 2018, we have upped our estimate accordingly.

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	***$1.45***	***$1.71***
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***
Shares	271	406	406	407	408	410	412	413	425	426	***425***	***425***

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 and ability to generate cash flows. It thus makes sense to look at funds from operations, or FFO. 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 -- $600 million was paid down during the first three quarters of 2018 -- 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 so far.

Kimco Realty has raised its dividend consistently since 2009, although the dividend was cut during the last recession.

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	***11.0***	***11.5***
Avg. Yld.	5.2%	6.2%	4.3%	4.2%	4.1%	4.0%	4.0%	3.9%	3.6%	5.3%	***7.1%***	***6.5%***

Kimco Realty (KIM)

Updated October 26th, 2018 by Jonathan Weber

Kimco Realty is trading at 11 times this year's expected funds from operations, which is not a high valuation at all. Its median valuation has been significantly higher over the last decade, but due to rising bond yields and worries about brick-and-mortar retailers its valuation will likely be in the low-double-digits going forward. We believe that shares are slightly undervalued here.

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%	***77.2%***	***76.0%***
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%***

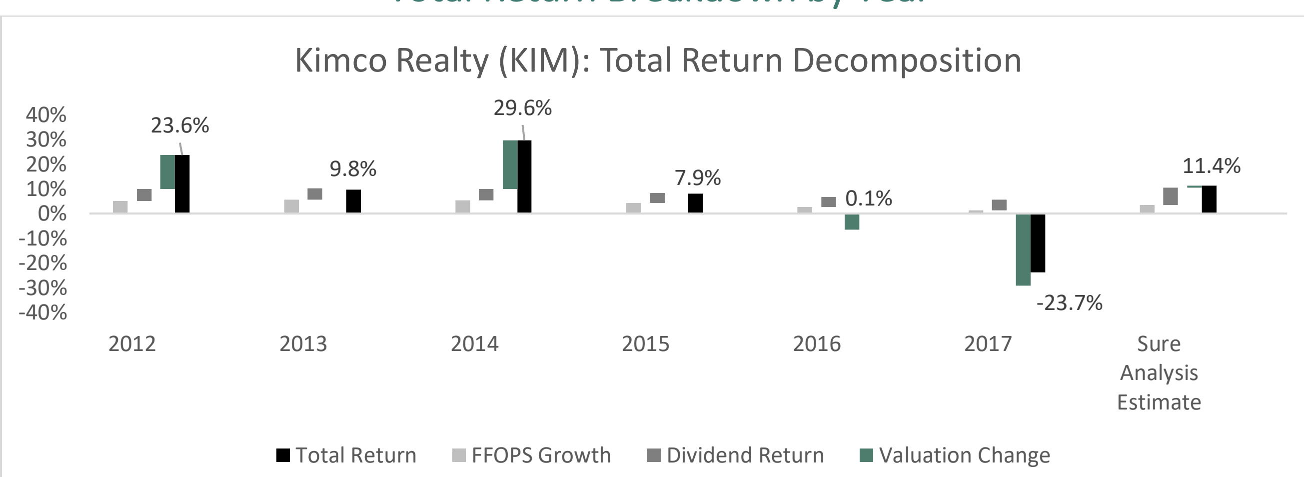
Kimco Realty is financing about half of its assets via debt, which is not a high leverage ratio for a REIT. Kimco Realty's debt to assets ratio has declined a bit from the peak during 2015, and in 2018 the company will continue to lower its debt levels. Since Kimco Realty will continue to sell non-core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

Final Thoughts & Recommendation

Kimco Realty is a retail focused REIT, but unlike many mall REITs Kimco Realty has so far not been impacted by the Amazon-threat. Traffic and rents at its shopping centers continue to grow, which will likely remain the case unlike the economy weakens substantially. Kimco Realty does not generate a lot of growth, but due to a high dividend yield and some multiple expansion potential the REIT will likely deliver compelling total returns nevertheless. This relatively conservative REIT, which is lowering its debt levels consistently, is rated a buy for income focused investors.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Kimco Realty (KIM)

Updated October 26th, 2018 by Jonathan Weber

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	825	831	827	814	793	862	994	1167	1171	1201
Gross Profit	609	598	613	607	599	653	750	875	883	901
Gross Margin	73.8%	72.0%	74.2%	74.6%	75.5%	75.8%	75.4%	75.0%	75.4%	75.0%
SG&A Exp.	116	108	123	132	136	141	136	135	128	130
D&A Exp.	207	228	248	251	263	258	273	345	355	361
Operating Profit	286	263	263	251	243	282	350	389	394	405
Operating Margin	34.7%	31.7%	31.7%	30.8%	30.7%	32.7%	35.2%	33.3%	33.7%	33.7%
Net Profit	250	-4	143	169	266	236	424	894	379	426
Net Margin	30.3%	-0.5%	17.3%	20.8%	33.5%	27.4%	42.7%	76.6%	32.4%	35.5%
Free Cash Flow	-88	-114	480	449	479	570	629	494	592	614
Income Tax	-13	-30	3	26	16	33	22	60	73	-1

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	9397	10183	9834	9629	9751	9664	10261	11344	11231	11764
Cash & Equivalents	136	122	125	113	142	149	187	190	142	239
Accounts Receivable	N/A	N/A	N/A	164	172	164	172	175	182	190
Total Liabilities	5192	4965	4578	4749	4819	4894	5360	6162	5828	6242
Accounts Payable	151	188	185	126	112	124	130	150	146	186
Long-Term Debt	4557	4389	4029	4114	4195	4221	4596	5376	5066	5479
Shareholder's Equity	3983	4852	4935	4685	4765	4632	4775	5046	5256	5394
D/E Ratio	1.14	0.90	0.82	0.88	0.88	0.91	0.96	1.07	0.96	1.02

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.7%	0.0%	1.4%	1.7%	2.7%	2.4%	4.3%	8.3%	3.4%	3.7%
Return on Equity	6.3%	-0.1%	2.9%	3.5%	5.6%	5.0%	9.0%	18.2%	7.4%	8.0%
ROIC	2.9%	0.0%	1.5%	1.8%	2.9%	2.6%	4.6%	8.9%	3.6%	4.0%
Shares Out.	271	406	406	407	408	410	412	413	425	426
Revenue/Share	3.19	2.37	2.04	2.00	1.95	2.11	2.42	2.83	2.79	2.83
FCF/Share	-0.34	-0.33	1.18	1.10	1.18	1.40	1.53	1.20	1.41	1.45

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