Tanger Factory Outlet Centers, Inc. (SKT)

Updated March 8th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	18.6%	**Volatility Percentile:**	57.5%
Fair Value Price:	$28	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	41.8%
% Fair Value:	71%	**5 Year Valuation Multiple Estimate:**	6.4%	**Growth Percentile:**	35.0%
Dividend Yield:	7.2%	**5 Year Price Target**:	$36	**Valuation Percentile:**	92.1%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	96.4%

Overview & Current Events

Tanger Factory Outlet Centers, Inc. (SKT) is one of the largest owners and operators of outlet centers in the United States and Canada. SKT operates and owns, or has a stake in, a portfolio of 44 upscale outlet shopping centers. SKT owns properties across 22 states and in Canada, totaling 15.3 million square feet. SKT leases to over 3,100 stores operated by over 530 different brand name companies. More than 189 million shoppers frequent Tanger Outlet Centers every year. SKT is headquartered in Greensboro, North Carolina. It's market capitalization is $1.95 billion.

Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers. Each outlet center allows for customer to purchase a variety of brand-name products directly from the manufacturer for big savings. Manufacturers are able to charge customers lower prices for their products by eliminating the third party retailer. They allow manufacturers and brand name retailers to establish direct relationships with their customers.

SKT released fourth quarter results (on Feb. 13, 2019) and announced adjusted funds from operations (AFFO) of $0.64 per share, compared to $0.66 per share in Q4 2017. AFFO for the full year was $2.48 per share, compared to $2.46 per share for full year 2017. SKT maintained their high portfolio occupancy, at 96.8% by end of 2018, however their portfolio occupancy by end of 2017 was higher at 97.3%. Portfolio NOI for the consolidated portfolio increased 0.4% for the quarter and increased 0.9% for the year.

Since becoming a public company in May 1993, SKT has paid a cash dividend each quarter and has increased the dividend every year. 2018 is no exception, as the Board of Directors approved a 1.4% increase to the annualized dividend, from $1.40 to $1.42.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFO	$1.37	$1.33	$1.47	$1.65	$1.88	$1.97	$2.22	$2.37	$2.46	$2.48	***$2.34***	***$2.99***
DPS	$0.77	$0.77	$0.79	$0.83	$0.89	$0.95	$1.31	$1.26	$1.35	$1.39	***$1.47***	***$1.97***
Shares	84	93	96	99	99	99	100	100	100	98	**98**	***100***

Moving into 2019, SKT's main focus is on leasing and marketing their properties. In 2019, SKT will realize full year impacts on earnings due to previous rent adjustments and the leasing team will attempt to fill vacancies and maintain highly occupied centers for customers to enjoy. SKT anticipates that on a select basis, certain tenants will pursue bankruptcy, store closures or lease adjustments. SKT also announced a future project in Nashville, Tennessee. Prior to acquiring the site and beginning construction, SKT prefers that 60% of the spaces in the outlet center have signed or negotiated leases. This greatly reduces the risk of their projects, and allows the company to maintain a safe dividend with a low payout ratio relative to the norm in its sector.

AFFO per share has compounded at 5.7% in the last 5 years, and 6.2% in the last 10 years. We estimate that growth will slow slightly given the current economic environment and the push to e-commerce, and compound at 5.0% over the next 5 years. The dividend has grown by 9.3% compounded in the last 5 years, and by 6.4% in the last 10 years. We estimate that dividends will continue to grow by at least 6% over the next 5 years, higher than AFFO growth but not by enough to impact the payout ratio much. During 2018, the Company repurchased approximately 919,000 common shares at a weighted average price of $21.74 per share. We are impressed by the history of SKT's share count as it has remained very stable over the years, which is uncommon for an REIT. We expect the share count to remain stable.

Tanger Factory Outlet Centers, Inc. (SKT)

Updated March 8th, 2019 by Quinn Mohammed

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/AFFO	14.2	19.2	20.0	20.7	17.0	19.0	14.8	15.1	10.8	8.2	**8.8**	**12.0**
Avg. Yld.	3.9%	3.0%	2.7%	2.4%	2.8%	2.6%	4.0%	3.5%	5.10%	6.9%	**7.2%**	**5.5%**

Over the last 5 years, SKT has traded at an average P/AFFO of 13.5. The current P/AFFO of 8.8 based on 2019's estimated AFFO represents a 35% discount to the 5-year average P/AFFO. The 10-year average P/AFFO for SKT is 15.9. We estimate that over time, SKT's multiple will expand closer to it's average, but remain a bit lower, at around 12.0. An estimated P/AFFO of 12.0 would result in valuation gains of 6.4% annually due to multiple expansion.

The dividend yield has been pushed to significant highs lately as the stock price has fallen. The 5-year average yield is 4.4%, but the current yield is 7.0%, ~263 basis points higher, which is attractive in our low interest rate environment. Given the expectations of an increased stock price due to increasing growth and multiple expansion, we expect the dividend will come down to 5.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

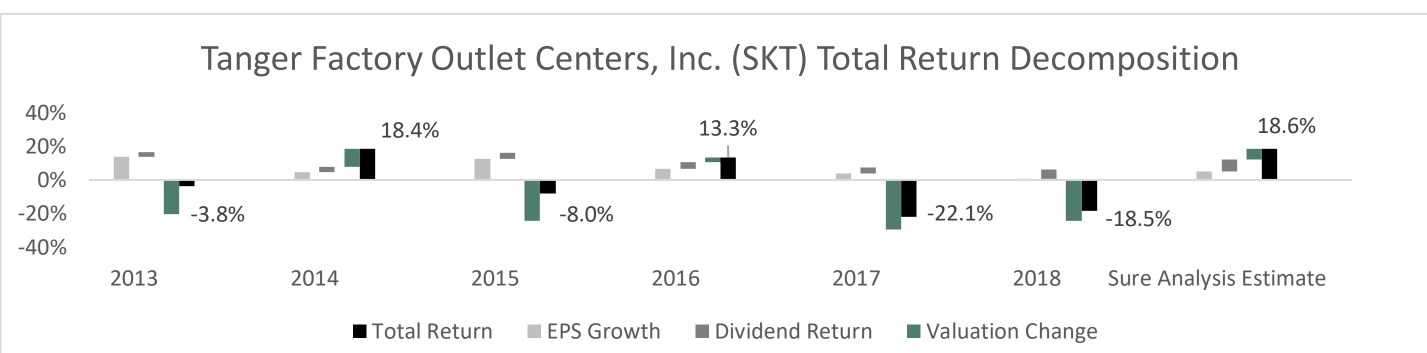
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	56%	58%	54%	50%	47%	48%	59%	53%	55%	*56%*	**63%**	**66%**

The payout ratio for SKT is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 54% is very safe, especially for a REIT, as this sector is known for its high payout ratio. We expect the payout ratio will grow as dividend growth will outpace AFFO growth, however the expected payout of 66% in 2024 is still very safe and leaves room for further dividend growth. SKT's management has a track record of success spanning nearly four decades. This 38 years of outlet industry experience, extensive development expertise, and strong retail relationships give them their competitive advantage in the outlet business. SKT went through the Great Recession virtually unscathed as AFFO fell only 2.2% from 2008 to 2010. Outlet centers provide good value for the cost and so this industry should see similar or growing foot traffic and earnings when the population tightens their purse strings.

Final Thoughts & Recommendation

SKT can expect EPS growth in the next five years to compound around 5.0%, roughly in line with the average over the past five years. We estimate that SKT will see growth of 6.4% due to PE multiple expansion. Combined with the current yield of 7.2%, total returns going forward are estimated at 18.6%. Considering SKT trades 27% below our calculated fair value and expects 18.6% in total returns moving forward, we are assigning a Buy rating on the stock. SKT also offers investors peace of mind through tough times as their industry saves consumers money and thus they can expect similar or growing foot traffic in tough economic times.

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.

Tanger Factory Outlet Centers, Inc. (SKT)

Updated March 8th, 2019 by Quinn Mohammed

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	271	276	315	357	385	419	439	466	488	495
Gross Profit	183	183	215	246	264	281	293	314	333	334
Gross Margin	67.7%	66.4%	68.2%	68.9%	68.5%	67.2%	66.7%	67.4%	68.2%	67.6%
SG&A Exp.	33	25	30	37	39	44	44	47	44	44
D&A Exp.	81	78	84	99	96	102	104	115	128	132
Operating Profit	70	80	101	110	129	132	144	152	161	158
Op. Margin	25.8%	29.1%	31.9%	30.7%	33.5%	31.5%	32.9%	32.6%	32.9%	32.0%
Net Profit	58	34	45	53	108	74	211	194	68	44
Net Margin	21.4%	12.4%	14.2%	14.9%	28.0%	17.7%	48.1%	41.6%	13.9%	8.8%
Free Cash Flow	85	119	136	166	187	189	221	239	253	258

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1179	1217	1622	1679	2006	2098	2315	2526	2540	2385
Cash & Equivalents	3	6	8	10	15	17	22	12	6	9
Goodwill & Int.	N/A	N/A	N/A	51	103	80	57	75	50	29
Total Liabilities	658	795	1093	1165	1449	1574	1709	1821	1928	1879
Accounts Payable	46	32	51	48	59	70	97	78	90	83
Long-Term Debt	585	715	1026	1094	1328	1443	1552	1688	1764	1713
Total Equity	388	367	461	483	522	497	575	670	582	480
D/E Ratio	1.26	1.95	2.23	2.27	2.54	2.90	2.70	2.52	3.03	3.57

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.0%	2.9%	3.1%	3.2%	5.8%	3.6%	9.6%	8.0%	2.7%	1.8%
Return on Equity	21.2%	9.1%	10.8%	11.3%	21.4%	14.5%	39.4%	31.1%	10.9%	8.2%
ROIC	5.4%	3.1%	3.3%	3.4%	6.2%	3.8%	10.2%	8.5%	2.9%	1.9%
Shares Out.	84	93	96	99	99	99	100	100	100	98
Revenue/Share	3.76	3.44	3.75	3.85	4.08	4.46	4.64	4.89	5.17	5.30
FCF/Share	1.18	1.47	1.62	1.79	1.99	2.01	2.33	2.51	2.68	2.77

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