Brixmor Property (BRX)

Updated May 20, 2019 , 2019 by Aiden Best

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	13.9%	**Volatility Percentile:**	XX.X%
Fair Value Price:	$21	**5 Year Growth Estimate:**	5.5%	**Momentum Percentile:**	XX.X%
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	2.2%	**Growth Percentile:**	XX.X%
Dividend Yield:	6.2%	**5 Year Price Target**	$28	**Valuation Percentile:**	XX.X%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	XX.X%

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that owns over 425 shopping centers which equates to over 74 million leasable square feet. Brixmors shopping centers are positioned in the top 50 metropolitan areas in the United States. Brixmors three largest tenants in 2018 were TJX Companies Inc., The Kroger Co., and The Dollar Tree Stores, Inc. With a market cap of $5.4 billion, Brixmor has been able to provide a steadily growing dividend per share that is currently at $1.11. Brixmor has a strong investment pipeline which is focused on investing in communities where they see future growth and divesting in areas that have been stagnant.

In the past quarter Q1 2019, Brixmor completed 11 new reinvestment opportunities, which include three anchor space-repositioning projects, two outparcel development projects, and six redevelopment projects that are expected to average incremental NOI yields of 10%. FFO/share was $0.48 for Q1 2019 and the net income for the past three months was $62.9 million up from a year ago at $61.0 million, or $0.21 and $0.20 per share, respectively. Brixmor was also able to lease over 1.7 million square feet of new and renewal leases. Brixmor was able to grow small shop lease occupancy to 85.7% which is 130 basis points higher than Q1 of 2018. Brixmor also repurchased 0.7 million shares of common stock in the past quarter.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	N/A	N/A	N/A	N/A	$1.67	$1.81	$1.97	$2.06	$2.08	$1.89	***$2.04***	***$2.67***
DPS	N/A	N/A	N/A	N/A	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	***$1.18***	***$1.66***
Shares	N/A	N/A	N/A	N/A	229.69	296.54	298.49	304.32	304.94	299.81	***297.99***	***283.81***

Brixmor's leases are signed at below market rates, which means that when the leases are up, they should be able to reset to market prices. Leases ending in 2022 have average rent per square foot of $12.75 compared to an average rent per square foot of $15.72 for new and renewal leases signed during 2018. Brixmor has also been able to tap into their occupancy growth. Their occupancy rate for spaces under 10,000 square feet is 85.7% whereas total occupancy is 91.9%. Brixmor plans to focus on filling these locations to bring up the average occupancy to 95.4%.Brixmor is increasing the number of leases with embedded rent bumps by 20.5% which will increase the Net Present Value of leases. We expect the share count to fall 2.7% in the next year due to continued share repurchases from Brixmor. Given our expected FFO/S of $2. 76 by 2024, the expected growth rate is 5.5% because they will be repurchasing shares and increasing rent.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
P/FFO	N/A	N/A	N/A	N/A	14.1	13.8	17.1	16.1	14.1	***12.6***	***9.5***	***10.6***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	3.56%	2.94%	3.58%	5.04%	***6.54%***	***7.04%***	***10.2%***

Historically, Brixmor stock has traded at a multiple of 10.6 times it's Price/FFO but is currently trading at 9.5 times. This is because the retail industry as a whole is experiencing headwinds due to online sales. But, the majority of Brixmor's tenants are anchored by business that will not be eliminated by online sales like food and fitness. Also, with their strong leadership (executive team has a history of success with other real estate businesses), they should be able to increase this multiple to 10.6 as they renegotiate their leases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

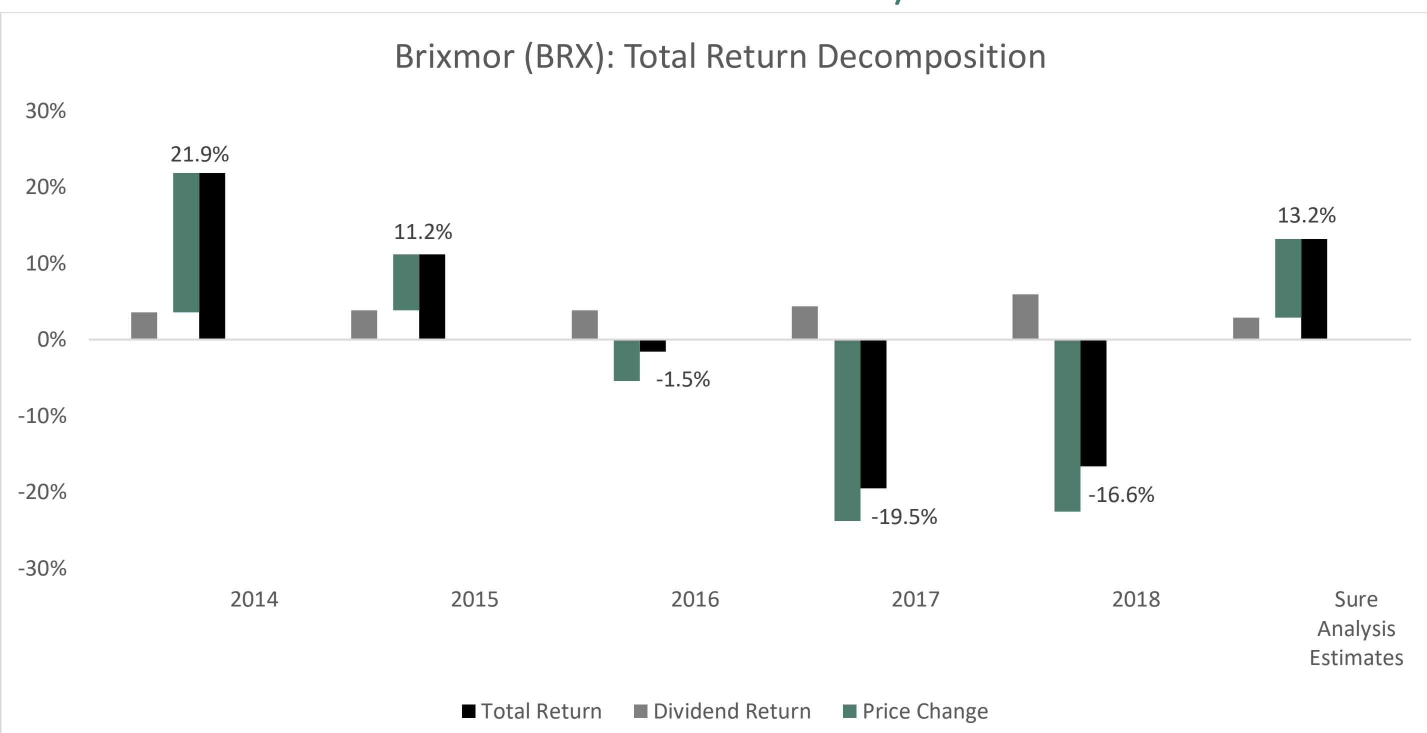
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	48%	40%	47%	49%	51%	59%	***68%***	***62%***

Brixmor has fostered strong relationships with national retailers and in return they receive insight into their strategies and priority access to their expansion plans. A concern is that similar real estate companies such as Kimco Realty Corporation with a similar portfolio performed poorly during the 2008 crisis. Hence, Brixmor would likely see a large cut to dividends and overall performance. However, the company is confident it would be more resilient to recessions because it has many grocery anchored properties. It is also making efforts towards a debt to earnings before interest, tax, depreciation and amortization of 6x. The company is making this a top priority to lower leverage as well as buyback shares to reduce the cost of capital. Also, Brixmor mitigates credit risk by using interest rate swap agreements that have a notional value of $1.2 billion. This effectively converts the variable interest payments on $1.2 billion of debt principal into fixed interest payments, which is beneficial if rates rise but harmful if rates fall.

Final Thoughts & Recommendation

Brixmor is an attractive company that will be able to boost its FFO because of the increase in leases per square foot. The company provides solid financials, but it is susceptible to credit risk. With Total returns of 17% which will accrue from a 6.2% dividend yield, 3% expected growth rate and 2.2% push from the valuation moving higher. Overall, the stock is a buy as it will provide above average returns in the next 5 years.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	1088	1146	1237	1266	1276	1283	1234
Gross Profit	N/A	N/A	N/A	814	861	928	956	968	968	921
Gross Margin	N/A	N/A	N/A	74.8%	75.1%	75.0%	75.5%	75.9%	75.4%	74.6%
SG&A Exp.	N/A	N/A	N/A	89	121	80	98	92	92	94
D&A Exp.	N/A	N/A	N/A	460	399	397	370	350	345	326
Operating Profit	N/A	N/A	N/A	225	291	395	430	479	495	465
Operating Margin	N/A	N/A	N/A	20.7%	25.4%	31.9%	33.9%	37.6%	38.6%	37.7%
Net Profit	N/A	N/A	N/A	-123	-94	89	194	276	300	366
Net Margin	N/A	N/A	N/A	-11.3%	-8.2%	7.2%	15.3%	21.6%	23.4%	29.7%
Free Cash Flow	N/A	N/A	N/A	269	332	479	524	567	552	542

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	9604	10172	9682	9498	9320	9154	8242
Cash & Equivalents	N/A	N/A	N/A	103	114	61	70	51	57	42
Accounts Receivable	N/A	N/A	N/A	157	179	182	180	178	232	228
Total Liabilities	N/A	N/A	N/A	7327	6887	6702	6578	6393	6246	5406
Long-Term Debt	N/A	N/A	N/A	6499	5981	6023	5974	5839	5676	4886
Shareholder's Equity	N/A	N/A	N/A	1721	2342	2904	2870	2923	2908	2836
D/E Ratio	N/A	N/A	N/A	3.78	2.55	2.07	2.08	2.00	1.95	1.72

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	-1.2%	-0.9%	0.9%	2.0%	2.9%	3.3%	4.2%
Return on Equity	N/A	N/A	N/A	-6.8%	-4.6%	3.4%	6.7%	9.5%	10.3%	12.8%
ROIC	N/A	N/A	N/A	-1.4%	-1.0%	1.0%	2.2%	3.1%	3.5%	4.5%
Shares Out.	N/A	N/A	N/A	229.69	296.54	298.49	304.32	304.94	299.81	229.69
Revenue/Share	N/A	N/A	N/A	4.87	6.07	5.06	4.15	4.18	4.20	4.08
FCF/Share	N/A	N/A	N/A	1.20	1.76	1.96	1.72	1.86	1.81	1.79

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