



Federal Realty Investment Trust (FRT)

Updated May 6th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	9.7%	Volatility Percentile:	21.6%
Fair Value Price:	\$140	5 Year Growth Estimate:	5.5%	Momentum Percentile:	59.5%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Growth Percentile:	50.0%
Dividend Yield:	3.1%	5 Year Price Target	\$183	Valuation Percentile:	65.7%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	58.4%

Overview & Current Events

Federal Realty is one of the larger real estate investment trusts (REITs) in the United States. The trust was founded in 1962 and concentrates in high-income, densely-populated coastal markets in the US, allowing it to charge more per square foot than its competition. Federal Realty trades with a market capitalization of \$10.1 billion today on \$950 million in annual revenue.

Federal Realty reported Q1 earnings on 5/2/19. FFO per share was \$1.56, in-line with expectations and up by 2.6% year-over-year. Total revenue was also up year-over-year by 3.4%. Meanwhile, same-store operating income increased 3.5% year-over-year, comparable portfolio leasing was at 94.6%, and achieved cash basis rollover growth of comparable spaces was 10%, reflecting a very healthy business. Due to the results that were relatively in-line with expectations, management maintained FFO per share guidance of \$6.38 at the midpoint for the full year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO	\$3.87	\$3.88	\$4.00	\$4.31	\$4.41	\$4.79	\$5.05	\$5.65	\$5.74	\$6.23	\$6.38	\$8.34
DPS	\$2.62	\$2.66	\$2.72	\$2.84	\$3.02	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.08	\$5.42
Shares	61	62	64	65	67	69	69	72	73	74	75	79

We use funds-from-operations (FFO) instead of earnings-per-share for REITs as the latter is messy and uninformative for this industry. Federal Realty's funds-from-operations have not dipped year-over-year at any point in the past decade, a tremendously impressive feat given that we had the Great Recession, and that the trust operates in the highly cyclical real estate sector. While growth numbers have not always been impressive, the simple fact that it has such a consistent track record of safety and stability when it comes to funds-from-operations makes it one of the most desirable REITs in the market. We are forecasting 5.5% annualized growth for the next five years, with 2019 in the area of 2%.

Federal Realty's growth will be comprised of a continuation of higher rent rates on new leases and its impressive development pipeline fueling asset base expansion. Margins are expected to continue to rise slightly as it redevelops pieces of its portfolio and same-center revenue continues to move higher. Q1 results support the long-term thesis for Federal Realty as rent rates climb and occupancy remains robust. The industry has seen some high-profile bankruptcies, although Federal Realty has largely been immune. However, we see this as a key risk to rent prices over the long-term for Federal Realty.

This will also allow for its dividend to continue to rise in the mid-single digits moving forward as the payout continues to be well-covered by funds-from-operations.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	14.4	19.4	21.2	23.6	24.3	27.8	27.2	27.0	22.9	19.6	20.8	22.0
Avg. Yld.	4.8%	3.5%	3.2%	2.8%	2.9%	2.7%	2.6%	2.5%	3.0%	3.3%	3.1%	3.0%

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Federal Realty's valuation now stands at 20.8 times our 2019 FFO estimate. That still compares favorably to our fair value estimate of 22 times FFO, but shares are no longer as cheap as they were last year. As a result, we expect only 1.1% annual contributions to total returns from margin expansion over the next half decade. We see the yield remaining where it is today, hovering around 3%, as Federal Realty continues its streak of 51 consecutive years of dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	68%	69%	68%	66%	69%	69%	72%	68%	69%	65%	64%	65%

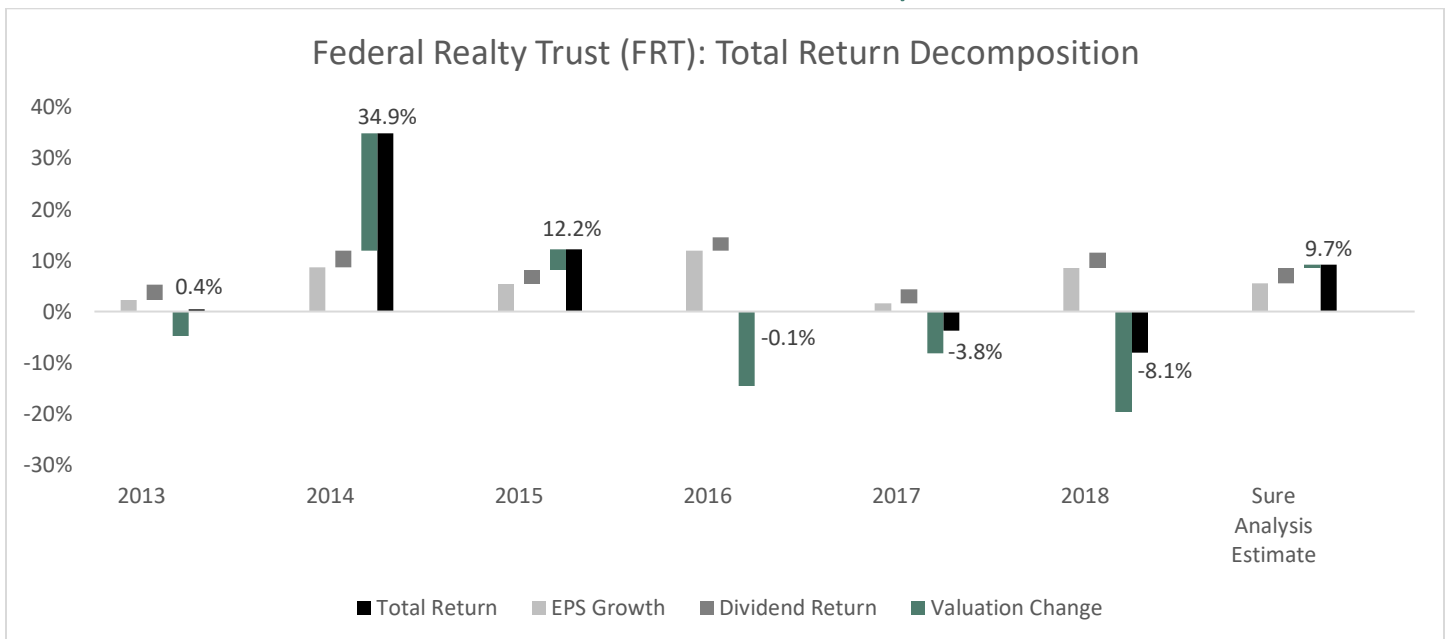
Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see that changing. The preferred mix of dividend payments as a percentage of FFO is two-thirds, and that is where we see the dividend for this year and in the coming years. Federal Realty's dividend payment is very safe and should continue to be raised for many years to come.

Federal Realty's competitive advantages include its superior development pipeline, its focus on high-income, high-density areas and its decades of experience in running a world-class REIT. These qualities allow it to perform admirably and even grow through recessions, when some of its lesser peers struggle to keep the lights on.

Final Thoughts & Recommendation

We are forecasting total annual returns of 9.7% going forward comprised of 5.5% funds-from-operations growth, the current 3.1% yield and a valuation tailwind of 1.1%. Federal Realty is a high-quality name that offers not only capital appreciation potential, but a nice yield as well. The valuation is not as favorable as it has been, but shares are still slightly under fair value. We continue to rate the REIT as a buy given its growth pipeline, the safe and growing dividend, and the relatively low valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	531	542	551	606	637	686	744	802	857	915
Gross Profit	364	373	381	427	447	474	511	548	585	628
Gross Margin	68.6%	68.8%	69.2%	70.4%	70.1%	69.1%	68.6%	68.4%	68.2%	68.6%
SG&A Exp.	22	24	29	31	32	32	36	33	36	34
D&A Exp.	115	120	127	142	161	171	175	194	216	244
Operating Profit	227	230	226	254	254	271	300	321	332	350
Operating Margin	42.8%	42.4%	41.1%	41.9%	39.9%	39.5%	40.3%	40.0%	38.8%	38.2%
Net Profit	98	123	144	152	163	165	210	250	290	242
Net Margin	18.5%	22.7%	26.1%	25.1%	25.5%	24.0%	28.3%	31.2%	33.8%	26.4%
Free Cash Flow	144	168	102	116	24	-15	87	-10	-60	148

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3222	3160	3666	3899	4219	4547	4897	5423	6276	6290
Cash & Equivalents	135	16	68	37	89	48	21	23	15	64
Accounts Receivable	72	69	76	74	85	93	110	117	210	142
Total Liabilities	2013	1978	2426	2588	2748	2854	3115	3347	3884	3822
Accounts Payable	121	114	105	121	156	146	147	202	196	178
Long-Term Debt	930	1080	2047	2137	2250	2338	2556	2727	3213	3158
Shareholder's Equity	1167	1140	1206	1277	1438	1594	1654	1967	2107	2186
D/E Ratio	0.79	0.94	1.68	1.66	1.55	1.46	1.54	1.38	1.42	1.35

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.1%	3.8%	4.2%	4.0%	4.0%	3.8%	4.5%	4.8%	5.0%	3.9%
Return on Equity	8.7%	10.6%	12.3%	12.2%	12.0%	10.9%	12.9%	13.8%	14.2%	11.3%
ROIC	4.0%	5.6%	5.2%	4.5%	4.5%	4.2%	5.0%	5.5%	5.6%	4.3%
Shares Out.	61	62	64	65	67	69	69	72	73	74
Revenue/Share	8.87	8.84	8.80	9.46	9.73	10.17	10.79	11.28	11.87	12.49
FCF/Share	2.41	2.73	1.63	1.81	0.37	-0.22	1.25	-0.14	-0.83	2.02

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

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