Kimco Realty (KIM)

Updated August 22nd, 2019 by Samuel Smith

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	7.1%	**Volatility Percentile:**	58.9%
Fair Value Price:	$17	**5 Year Growth Estimate:**	3.4%	**Momentum Percentile:**	71.5%
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Growth Percentile:**	23.4%
Dividend Yield:	6.0%	**5 Year Price Target**	$20	**Valuation Percentile:**	41.2%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	41.7%

Overview & Current Events

Kimco Realty is a real estate investment trust that owns, develops, manages and operates shopping centers. Kimco, in particular, specializes in open-air shopping centers. The trust was founded in 1973, is headquartered in New Hyde Park, NY, and currently trades with a market capitalization of $7.8 billion.

Kimco Realty reported its first quarter earnings results on July 25th. The trust generated revenues of $280.7 million during the first quarter, which was 3.0% less than the revenues that Kimco generated during the previous year's period. This revenue decline can be explained by the fact that Kimco sold some of its assets throughout the last year in order to free up cash that is being used to reduce the trust's debt levels; the revenue decline was not based on a weak performance by Kimco's properties. These asset sales are not accretive in the near term, but they strengthen the trust's balance sheet, which could be a competitive advantage over the long term in the event of an economic downturn.

Kimco Realty's funds from operations totaled $0.36 on a per-share basis during the second quarter compared to $0.38 per share during the second quarter of 2018. However, this was due to the negative impact of Kimco Realty's asset sales. The underlying performance of Kimco's assets was solid, as same-property net operating income rose 2.5% during the first quarter. Without any asset sales, the trust would likely have been able to grow its funds from operations meaningfully. Kimco Realty guides for net operating income growth of 1.75% to 2.5% during 2019. Meanwhile, the pro-rata occupancy rate reached a record-tying 96.2%. New leasing spreads were a very impressive 37%. Funds from operations are seen at $1.46 on a per-share level.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFOPS	---	$1.14	$1.20	$1.26	$1.33	$1.40	$1.46	$1.50	$1.52	$1.47	***$1.46***	***$1.73***
DPS	$0.72	$0.66	$0.73	$0.78	$0.86	$0.92	$0.98	$1.02	$1.08	$1.12	***$1.12***	***$1.36***
Shares[1]	406	406	407	408	410	412	413	425	426	421	***418***	***410***

As REITs have high non-cash expenses, primarily due to depreciation, 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 trust 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 declined by a mid-single digit rate compared to 2017. The decline was due to a planned reduction of Kimco Realty's asset base. The trust sold more than $900 million worth of properties during fiscal 2018, which has lowered Kimco Realty's rent proceeds as well, as its funds from operations declined substantially. Kimco Realty has used the majority of these proceeds to pay down debt; $650 million of debt was paid down between December of 2017 and December of 2018. Getting rid of weaker assets negatively impacts Kimco Realty's earnings power in the short term, but lower interest expenses will be a benefit in the long run.

[1] In millions

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Once the asset sales are completed, Kimco Realty should be able to grow its FFO through rent increases and rising operating income. The underlying operating performance of Kimco Realty is strong, which is reflected in positive same-property NOI growth. The trust is not facing any problems due to e-commerce hurting sales at its properties so far.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	8.7	13.4	14.3	15.1	16.2	16.4	17.3	18.8	13.5	9.9	***12.7***	***11.5***
Avg. Yld.	6.2%	4.3%	4.2%	4.1%	4.0%	4.0%	3.9%	3.6%	5.3%	7.7%	***6.0%***	***6.9%***

Kimco Realty trades for 12.7 times this year's expected funds from operations, which represents a small premium over our fair value estimate. During the majority of the last decade Kimco traded at a higher valuation, but going forward the valuation will likely not reach the mid-teens range again. This is due to the market's worries about retail REITs in general, and due to a general decline in the share prices of many income stocks.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	57.9%	60.8%	61.9%	64.7%	65.7%	67.1%	68.0%	71.1%	76.2%	***76.7%***	***78.6%***

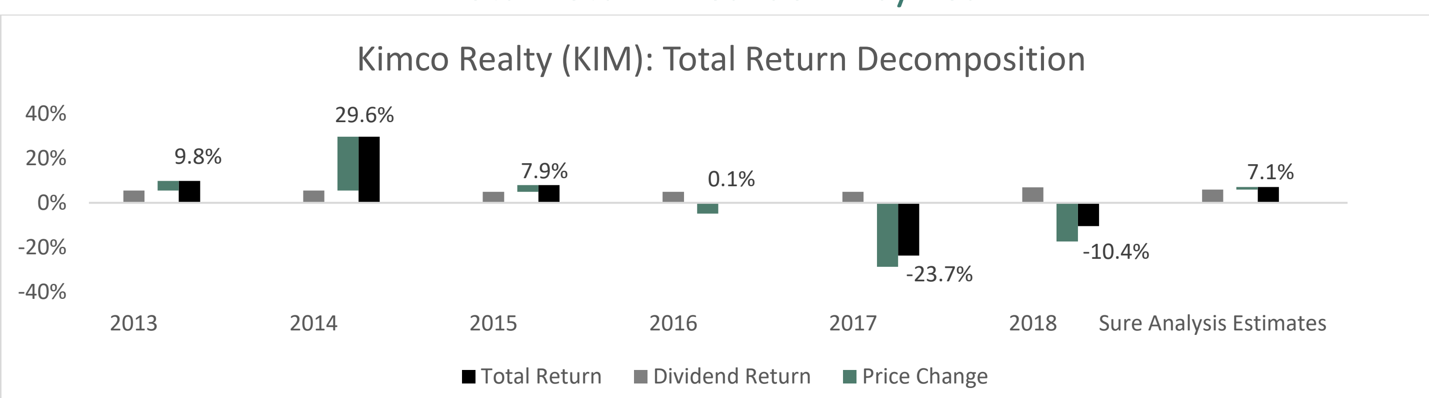
Kimco Realty's dividend payout ratio is relatively high at first sight. Many other REITs have payout ratios of 70% or more, but we nevertheless do not think that Kimco Realty's dividend is overly safe. During the last financial crisis Kimco was forced to cut its dividend, and something similar could happen again during a major recession or other crisis.

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 focus on outdoor shopping-centers has shielded the trust 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, as well as many grocers. During the last financial crisis Kimco Realty did not remain profitable (using FFO), but during less severe recessions the trust would likely not be impacted significantly.

Final Thoughts & Recommendation

Kimco Realty is a retail REIT, but its shopping-center focus provides some protection versus the rise of e-commerce companies, and the underlying performance of Kimco's assets has been very solid in the recent past. Once the asset sales have been completed, per-share FFO should begin to grow again. Kimco Realty earns a hold recommendation from Sure Dividend as shares trade above fair value but offer a very strong dividend yield, leading to a respectable 7.1% expected annualized total return.

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	831	827	814	793	862	994	1167	1171	1201	1165
Gross Profit	598	613	607	599	653	750	875	883	901	847
Gross Margin	72.0%	74.2%	74.6%	75.5%	75.8%	75.4%	75.0%	75.4%	75.0%	72.7%
SG&A Exp.	108	123	132	136	141	136	135	128	130	99
D&A Exp.	228	248	251	263	258	273	345	355	361	N/A
Operating Profit	263	263	251	243	282	350	389	394	405	432
Operating Margin	31.7%	31.7%	30.8%	30.7%	32.7%	35.2%	33.3%	33.7%	33.7%	37.1%
Net Profit	-4	143	169	266	236	424	894	379	426	498
Net Margin	-0.5%	17.3%	20.8%	33.5%	27.4%	42.7%	76.6%	32.4%	35.5%	42.7%
Free Cash Flow	-114	480	449	479	570	629	494	592	614	N/A
Income Tax	-30	3	26	16	33	22	60	73	-1	2

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	10183	9834	9629	9751	9664	10261	11344	11231	11764	10999
Cash & Equivalents	122	125	113	142	149	187	190	142	239	144
Acc. Receivable	N/A	N/A	164	172	164	172	175	182	190	185
Total Liabilities	4965	4578	4749	4819	4894	5360	6162	5828	6242	5588
Accounts Payable	188	185	126	112	124	130	150	146	186	
Long-Term Debt	4389	4029	4114	4195	4221	4596	5376	5066	5479	4874
Total Equity	4852	4935	4685	4765	4632	4775	5046	5256	5394	5334
D/E Ratio	0.90	0.82	0.88	0.88	0.91	0.96	1.07	0.96	1.02	0.91

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.0%	1.4%	1.7%	2.7%	2.4%	4.3%	8.3%	3.4%	3.7%	4.4%
Return on Equity	-0.1%	2.9%	3.5%	5.6%	5.0%	9.0%	18.2%	7.4%	8.0%	9.3%
ROIC	0.0%	1.5%	1.8%	2.9%	2.6%	4.6%	8.9%	3.6%	4.0%	4.7%
Shares Out.	406	406	407	408	410	412	413	425	426	421
Revenue/Share	2.37	2.04	2.00	1.95	2.11	2.42	2.83	2.79	2.83	2.76
FCF/Share	-0.33	1.18	1.10	1.18	1.40	1.53	1.20	1.41	1.45	N/A

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