



Tanger Factory Outlet Centers, Inc. (SKT)

Updated August 22nd, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	25.0%	Volatility Percentile:	55.7%
Fair Value Price:	\$26	5 Year Growth Estimate:	4.0%	Momentum Percentile:	7.3%
% Fair Value:	58%	5 Year Valuation Multiple Estimate:	11.4%	Growth Percentile:	26.2%
Dividend Yield:	9.6%	5 Year Price Target:	\$32	Valuation Percentile:	98.1%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	98.8%

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 39 upscale outlet shopping centers. SKT owns properties across 20 states and in Canada, totaling 14.3 million square feet. SKT leases to over 2,800 stores operated by over 500 different brand name companies. More than 181 million shoppers frequent Tanger Outlet Centers every year. SKT is headquartered in Greensboro, North Carolina. Its market capitalization is \$1.4 billion. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

SKT released second quarter results on July 31st and announced funds from operations (FFO) of \$0.52 per share, compared to \$0.60 per share in the same period last year. Adjusted funds from operations (AFFO) came in higher at \$0.57 per share, a decrease of 5% compared to \$0.60 per share last year. This results in a funds available for distribution (FAD) payout ratio of 69% for the first half of 2019, a very healthy number for an REIT.

Consolidated portfolio occupancy rate increased to 96.0% from 95.6% last year. Same center NOI for the consolidated portfolio was down 0.1% YoY, due to the impact of prior bankruptcies, lease modifications and store closures. Average tenant sales productivity increased to \$395 per square foot compared to \$383 per square foot in the same period a year ago, likely due to the recent non-core outlet center sales completed in the prior quarter.

During the second quarter, the company repurchased approximately 558,000 shares worth roughly \$10 million. Currently, Tanger is prioritizing their use of capital to reinvest in its assets, pay its dividend, repurchase shares opportunistically and de-leverage the balance sheet.

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	\$2.25	\$2.74
DPS	\$0.77	\$0.77	\$0.79	\$0.83	\$0.89	\$0.95	\$1.31	\$1.26	\$1.35	\$1.39	\$1.42	\$1.81
Shares	84	93	96	99	99	99	100	100	100	98	98	100

In 2019, SKT's focus is on leasing and marketing their properties. 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 has announced a 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 push to e-commerce, and compound at 4.0% 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 around 5% 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 \$20 million of common stock. We are impressed by the history of SKT's share count as it has remained very stable over the years, which is uncommon for a REIT. We expect the share count to remain stable or drop slightly over the long term.

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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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	6.7	11.5
Avg. Yld.	3.9%	3.0%	2.7%	2.4%	2.8%	2.6%	4.0%	3.5%	5.10%	6.9%	9.6%	5.7%

Over the last 5 years, SKT has traded at an average P/AFFO of 13.5. The current P/AFFO of 6.7 based on 2019's estimated AFFO represents a 50% 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 its average, but remain slightly lower, at around 11.5. An estimated P/AFFO of 11.5 would result in valuation gains of 11.4% 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 9.6%, 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 5.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

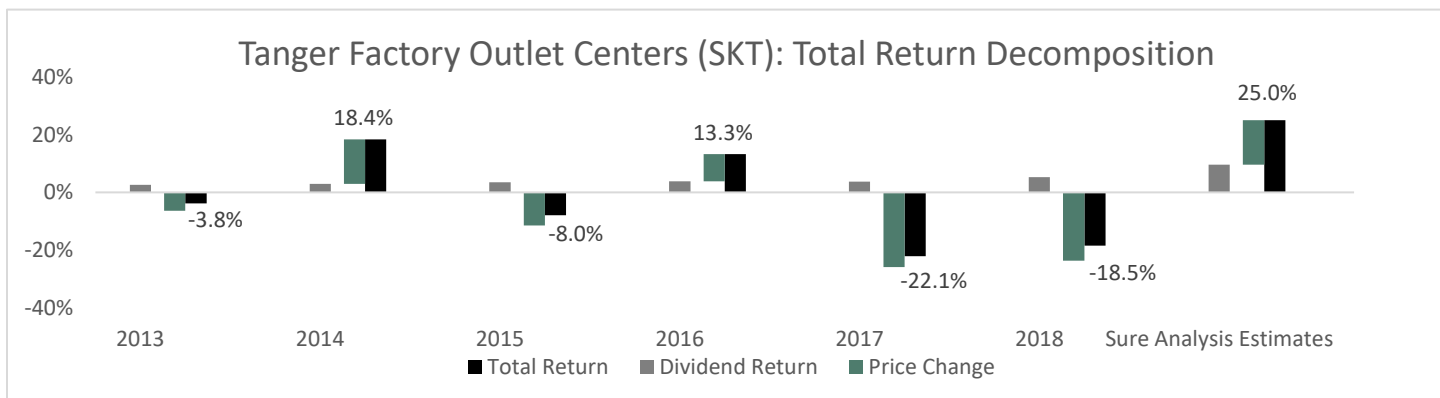
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	56%	58%	54%	50%	47%	48%	59%	53%	55%	56%	63%	66%

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 ratios. 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. These 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 FFO growth in the next five years to compound around 4.0%, roughly in line with the average over the past five years. We estimate that SKT will see additional gains of 11.4% annually due to PE multiple expansion. Combined with the current yield of 9.6%, total returns going forward are estimated at 25%. Considering SKT trades 42% below our fair value and expects 25% in total returns moving forward, we are assigning a strong buy rating. SKT also offers investors peace of mind through tough times as their industry saves consumers money and the REIT can therefore expect similar or growing foot traffic in tough economic times.

Total Return Breakdown by Year



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Tanger Factory Outlet Centers, Inc. (SKT)

Updated March 8th, 2019 by Quinn Mohammed

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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.

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