Brixmor Property (BRX)

Updated November 2nd, 2019 by Kay Ng

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	9.0%	**Volatility Percentile:**	58.2%
Fair Value Price:	$23	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	95.1%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Growth Percentile:**	27.9%
Dividend Yield:	5.1%	**5 Year Price Target**	$28	**Valuation Percentile:**	77.9%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	76.9%

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that owns about 421 shopping centers which equate to roughly 73 million leasable square feet. Brixmor's shopping centers are positioned in the top 50 metropolitan areas in the United States. Brixmor's three largest tenants (by annualized base rent) are TJX Companies Inc. (TJX), The Kroger Co. (KR), and The Dollar Tree Stores, Inc. (DLTR) with no tenant contributing more than 3.4% of annualized base rent.

With a market cap of $6.6 billion, Brixmor has been able to provide a steadily growing dividend per share that is currently annualized at $1.12. Brixmor has a strong investment pipeline which is focused on investing in communities where it sees future growth and divesting in stagnant areas.

In the past quarter Q3 2019 that it reported on October 28, 2019, Brixmor completed 11 value-reinvestment projects. It also added 12 new reinvestment opportunities to its pipeline, including 5 anchor space-repositioning projects, 5 outparcel development projects, and 2 redevelopment project that are expected to average incremental NOI yields of 10%. FFO/share was $0.49 for the quarter, which increased by 16.7% from the FFO/share generated in Q3 2018. Brixmor was also able to lease 2.3 million square feet of new and renewal leases. Brixmor increased small shop lease occupancy to 85.6% which was 30 basis points higher than in Q2. The REIT increased the quarterly dividend by 1.8% that will start in Q1 2020.

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	***$1.97***	***$2.40***
DPS	N/A	N/A	N/A	N/A	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	***$1.12***	***$1.36***
Shares[1]	N/A	N/A	N/A	N/A	229.69	296.54	298.49	304.32	304.94	299.81	***297.99***	***283.81***

From 2013 to 2018, Brixmor increased its FFO per share by 2.5% per year. Its leases are signed at below-market rates, which means that when the leases are up, the REIT should be able to reset to prices that are closer to the market. In the past year or so, Brixmor successfully increased its average rent per square feet by about 5%. The REIT has also identified reinvestment opportunities, including about $413.9 million that are actively underway.

The REIT also aims to improve occupancy growth. It ended Q3 2019 with an occupancy rate of 91.9%, up from 91.5% in Q2, and it plans to boost the average occupancy to 95.4%. We expect the share count to fall about 1% per year through 2024 from Brixmor's continued share repurchases. Our expected growth rate for the REIT is 4% -- from share buybacks, rising rent, and reinvestment opportunities.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	N/A	N/A	N/A	N/A	14.1	13.8	17.1	16.1	14.1	12.6	***11.2***	***11.5***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	3.6%	2.9%	3.6%	5.0%	6.5%	***5.1%***	***4.9%***

1. Shares in millions.

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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The retail industry as a whole is experiencing headwinds due to online sales. Consequently, the stock has experienced multiples contraction. However, the majority of Brixmor's tenants are anchored by businesses, including food and fitness, that will not be greatly impacted by online sales. Also, with its strong leadership (executive team has a history of success with other real estate businesses), it should be able to stabilize the multiple at about 11.5 as the REIT renegotiates expired 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%	***57%***	***57%***

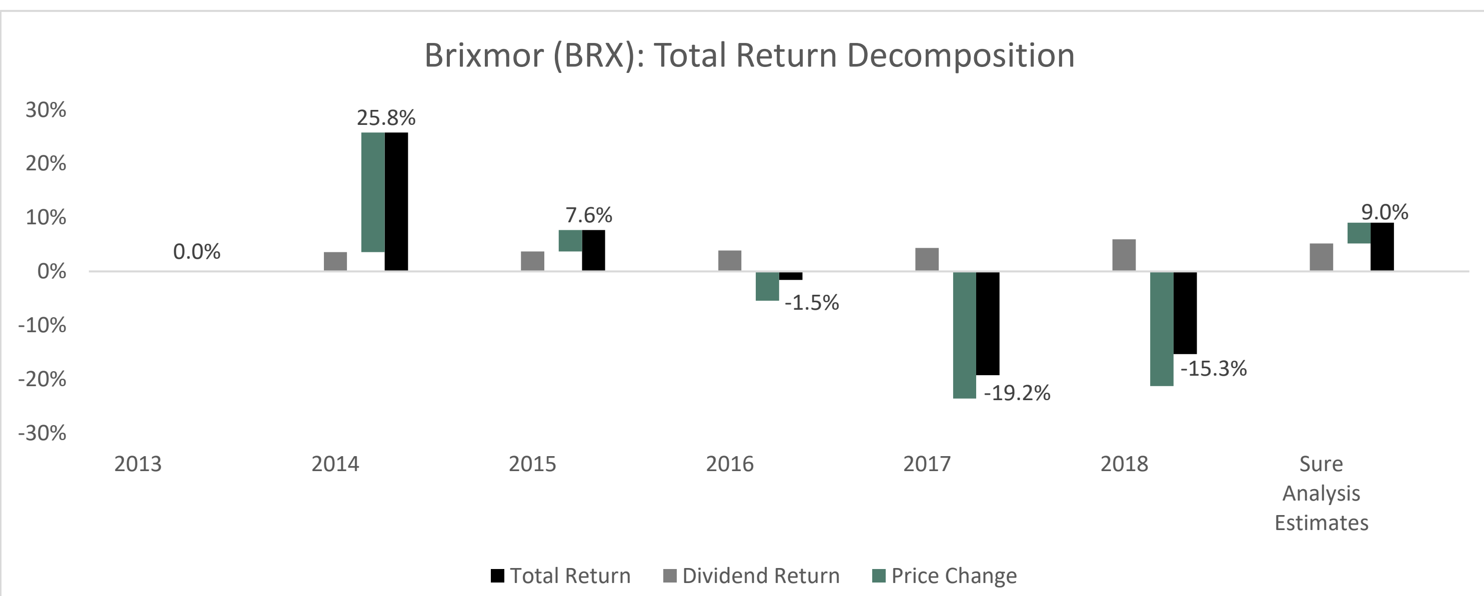
Brixmor has fostered strong relationships with national retailers, and, in return, it receives insights into their strategies and priority access to their expansion plans. A concern is that similar real estate companies such as Kimco Realty Corporation (KIM) with a similar portfolio performed poorly during the 2008 crisis. Hence, Brixmor would likely see a large dividend and stock price cut when the economy is in distress. However, the company is confident it would be more resilient to recessions because it has many grocery-anchored properties (about 70% of its properties).

At the end of the Q3, Brixmor's debt-to-equity ratio was 1.96x, while its debt-to-asset ratio was 66%. Its recent interest coverage ratio was about 4.2x. So, the company's balance sheet is over leveraged, but it's generating more than enough profitability to pay interest on its outstanding debt. And its payout ratio is sustainable in a normal economic environment.

Final Thoughts & Recommendation

Brixmor is a higher risk stock due to it being more leveraged and has pretty low growth. That said, its high yield may attract certain income investors. Over the next five years, we estimate total returns of 9% in the stock, coming from a current yield of 5.1%, valuation expansion to add 0.6% of returns per year, and FFO per share growth of 4% per year. We rate the security as a hold at current prices for higher-risk investors.

Total Return Breakdown by Year



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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
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018

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
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

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.