Simon Property Group (SPG)

Updated December 31st, 2019 by Samuel Smith

Key Metrics

Current Price:	$147	**5 Year CAGR Estimate:**	12.9%	**Market Cap:**	$52B
Fair Value Price:	$191	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	2/14/20[1]
% Fair Value:	77%	**5 Year Valuation Multiple Estimate:**	5.4%	**Dividend Payment Date:**	2/29/20[2]
Dividend Yield:	5.6%	**5 Year Price Target**	$222	**Years of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.0%

Overview & Current Events

Simon Property Group is a real estate investment trust (REIT) that was formed in 1993. The trust focuses on retail properties, mainly in the US, with the goal of being the premier destination for high-end retailers and their customers. The trust has interests in about 230 different properties that amount to nearly 200 million square feet of leasable space. Simon produces about $5.8 billion in annual revenue and has a market capitalization of $52 billion.

Simon reported Q3 earnings on 10/30/19. Q3 FFO-per-share came in at $3.05, flat year-over-year. However, adjusting for changing accounting standards, FFO-per-share actually increased by 1% year-over-year. Meanwhile, revenue came in at $1.42 billion, beating consensus by $30 million and increasing by $20 million year-over-year. Same property NOI growth was mediocre at 1.6% while occupancy remained solid at 94.7%, and basic minimum rent per square foot was $54.55 at quarter-end. Given the continued solid results, management raised the midpoint of its guidance for comparable FFO-per-share by half a cent to $12.355.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/Shr	$5.33	$5.01	$6.89	$7.98	$8.85	$8.90	$9.86	$10.49	$11.21	$12.13	***$12.35***	***$14.32***
DPS	$0.45	$2.60	$3.50	$4.10	$4.65	$5.15	$6.05	$6.50	$7.15	$7.90	***$8.20***	***$10.50***
Shares[3]	286	293	294	310	310	311	309	313	311	309	***306***	***295***

Simon's FFO history is quite good in that it saw only a minor dip in profitability during the Great Recession. Funds from operations have since more than doubled. Simon's focus on high-end retailing has proven an immense source of strength in recent years and we see that steady performance continuing. In total, we see Simon producing a 3% average annual FFO growth rate moving forward. Recent years have seen a growth rate roughly double that at 6%, but given Simon's already-dominant position in the retail sector, the unstoppable rise of e-commerce crimping demand for physical stores, and how mature the current economic cycle is, it looks like Simon and other retail REITs will have a harder time with future FFO growth. Guidance for 2019 would seem to support this thesis.

That said, Simon is still the best retail REIT in the market by many metrics. Its occupancy rates remain high, hovering around 96% in recent quarters. It also charges more than $54 per square foot on average, which is tremendously high for retail space. Simon has built a niche with high-end retailers over the years such that it has the most desirable spaces and developments, and thus sees a virtuous combination of high occupancy and leasing rates.

The distribution is obviously a big draw for Simon's shareholders as the trust allocates much of its excess capital in this way. The distribution should rise slightly more quickly than FFO, and we see it hitting $10.50 by 2024. Another tailwind to the per-share growth thesis is that Simon is one of the few REITs with the balance sheet and free cash flow generation capacity to repurchase shares. Given the current discount to NAV in the shares, doing this will unlock significant value

[1] Estimate
[2] Estimate
[3] In millions

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for shareholders while also growing FFO-per-share at a more rapid pace, and thereby helping to offset the drag on growth from the rise of e-commerce.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	10.4	17.6	16.5	18.7	18.4	19.0	19.1	19.2	15.1	13.9	***11.9***	***15.5***
Avg. Yld.	0.8%	3.0%	3.1%	2.7%	2.9%	3.0%	3.2%	3.2%	4.2%	4.7%	***5.6%***	***4.7%***

Simon's valuation has been remarkably steady for much of the past decade and today, at just 12.1 times this year's FFO estimate, the stock is relatively cheap. We see fair value at 15.5 times FFO, implying a 5.4% annual tailwind to total returns in the years to come. We've moved our estimate of fair value down slightly since the last report, reflecting concerns raised by management over retail tenants, as well as overall slowing growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	8%	52%	51%	51%	53%	58%	61%	62%	64%	65%	***66%***	***73%***

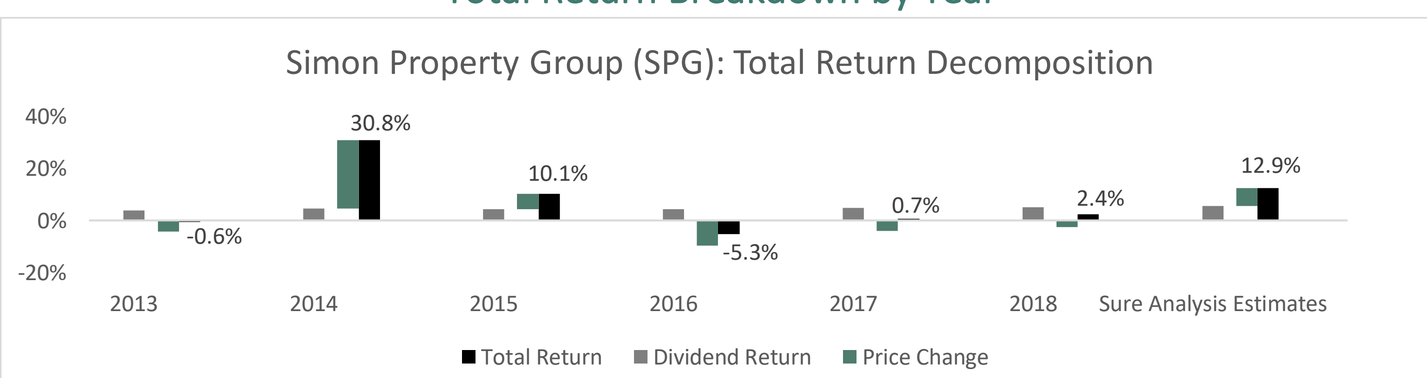
Simon's quality metrics have been very stable in the past decade as the trust has kept operating metrics such as balance sheet leverage and interest coverage, in a fairly narrow range. Profitability has improved over time as the trust's strength has afforded it the ability to raise prices, but we believe most of the profitability gains have been made. Simon's lease pricing is already an industry-best and has stagnated in recent quarters, leading us to believe further margin gains from here will be challenging. The payout ratio should rise as Simon has been boosting its distribution more quickly than FFO; given the forecast for slowing FFO growth, this should continue.

Simon's competitive advantage is in its world-class portfolio of properties that allows it to charge industry-best leasing rates. Another advantage is its low cost of capital that comes from its A-rated balance sheet, enabling it to invest in ways that competitors cannot afford to. That being said, it is not immune to recession as it did cut its dividend during the last downturn. However, despite the cut, its overall business held up fairly well during that period should be able to again. It is also one of the best positioned retail REITs to weather the impact of e-commerce on bricks-and-mortar retail stores.

Final Thoughts & Recommendation

Overall, we forecast Simon to produce robust 12.9% total returns in the coming years, accruing from the 5.6% yield, strong growth, and a robust tailwind from multiple expansion. We continue to rate the stock a buy as Simon offers investors an attractively priced stock with a high yield and distribution growth prospects. While the balance sheet is A-rated, investors should remember that it did cut its dividend during the last recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3775	3958	4306	4256	4544	4871	5266	5435	5539	5658
Gross Profit	3350	3095	3387	3456	3706	3988	4306	4464	4559	4650
Gross Margin	88.7%	78.2%	78.6%	81.2%	81.6%	81.9%	81.8%	82.1%	82.3%	82.2%
SG&A Exp.	319	228	282	291	319	355	350	366	338	334
D&A Exp.	1009	1016	1112	1301	1333	1286	1239	1328	1357	1350
Operating Profit	1604	1816	1943	2000	2189	2385	2669	2721	2802	2911
Operating Margin	42.5%	45.9%	45.1%	47.0%	48.2%	49.0%	50.7%	50.1%	50.6%	51.5%
Net Profit	309	617	1025	1434	1320	1409	1828	1839	1948	2440
Net Margin	8.2%	15.6%	23.8%	33.7%	29.0%	28.9%	34.7%	33.8%	35.2%	43.1%
Free Cash Flow	1344	1499	1560	1711	1860	1934	2004	2574	2862	2969
Income Tax	-5	4	12	16	40	28	20	30	23	37

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	25948	24857	26217	32587	33325	29532	30565	31104	32258	30686
Cash & Equivalents	3958	797	799	1185	1691	612	701	560	1482	514
Acc. Receivable	N/A	N/A	487	521	520	580	625	665	743	764
Goodwill & Int.	N/A	N/A	296	507	376	312	276	285	209	151
Total Liabilities	20765	19224	20673	25694	26502	23581	25349	26144	28019	26889
Accounts Payable	N/A	N/A	1092	1374	1223	1260	1324	1214	1269	1317
Long-Term Debt	18630	17474	18446	23113	22670	20853	22417	22977	24564	23238
Total Equity	4412	4785	4605	5866	5805	5049	4428	4267	3643	3254
D/E Ratio	4.18	3.62	3.97	3.91	3.88	4.09	5.01	5.33	6.66	7.05

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.3%	2.4%	4.0%	4.9%	4.0%	4.5%	6.1%	6.0%	6.1%	7.8%
Return on Equity	8.9%	13.4%	21.8%	27.4%	22.6%	26.0%	38.6%	42.3%	49.3%	70.8%
ROIC	1.4%	2.6%	4.4%	5.3%	4.4%	5.0%	6.7%	6.6%	6.9%	8.7%
Shares Out.	286	293	294	310	310	311	309	313	311	309
Revenue/Share	14.06	13.58	14.67	14.04	14.65	15.68	16.98	17.38	17.78	18.27
FCF/Share	5.01	5.14	5.32	5.64	5.99	6.22	6.46	8.23	9.19	9.59

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