Brixmor Property (BRX)

Updated February 14th, 2020 by Kay Ng

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$6.1B
Fair Value Price:	$21	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	04/03/20
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	04/15/20
Dividend Yield:	5.5%	**5 Year Price Target**	$25	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.8%

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 400 properties (mostly shopping centers) after selling 24 shopping centers and 3 partial properties in 2019. 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 and most contributing at least 1%.

Brixmor has a strong investment pipeline which is focused on investing in communities where it sees future growth and divesting in stagnant areas. In Q4 2019, it stabilized 17 value-enhancing reinvestment projects at an average incremental net operating income yield of 10% and added 12 new reinvestment opportunities to its pipeline, including 4 anchor space-repositioning projects, 4 outparcel development projects, and 4 redevelopment projects that are expected to average incremental NOI yields of 11%.

Brixmor reported Q4 and full-year 2019 results on 02/10/20. In Q4, FFO/share was $0.47, which increased by about 17% from the FFO/share generated in Q4 2018. Brixmor was also able to lease 1.7 million square feet of new and renewal leases. Brixmor increased small shop lease occupancy to 86.2% which was 60 basis points higher than in Q3.

In 2019, Brixmor reported FFO/share of 1.91, which climbed 3.2%. During the year, it also repurchased 0.8 million of common shares for about $14.6 million at an average price of $17.43 per share, which was a good use of capital seeing that the stock is trading 18% higher. On January 9, Brixmor entered into a new 3-year $400 million share repurchase program.

The retail REIT's initial 2020 FFO/share guidance is $1.90 - $1.97 and same-property net operating income growth of 3.0 – 3.5%. The midpoint FFO/share guidance is $1.93, which is what we use below for our 2020 FFO/S estimate.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO/S	---	---	---	$1.67	$1.81	$1.97	$2.06	$2.08	$1.89	$1.91	***$1.93***	***$2.24***
DPS	---	---	---	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	$1.12	***$1.14***	***$1.32***
Shares[1]	---	---	---	230	297	298	304	305	300	298	***297***	***292***

From 2014 to 2019, Brixmor increased its FFO per share by 0.6% 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 annualized base rent per square feet by about 4.5%. The REIT has also identified reinvestment opportunities, including about $413 million that are actively underway.

The REIT also aims to improve occupancy growth. It ended Q4 2019 with an occupancy rate of 92.4%, up from 91.5% in Q2, and it plans to boost the average occupancy to 95.4%. We expect the share count to continue falling through 2025 from Brixmor's continued share repurchases. Our expected growth rate for the REIT is 3% -- from share buybacks, rising rent, and reinvestment opportunities.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	---	---	---	14.1	13.8	17.1	16.1	14.1	12.6	10.2	***10.7***	***11.0***
Avg. Yld.	---	---	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	***5.5%***	***5.4%***

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 as the REIT renegotiates expired leases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	48%	40%	47%	49%	51%	59%	59%	***59%***	***59%***

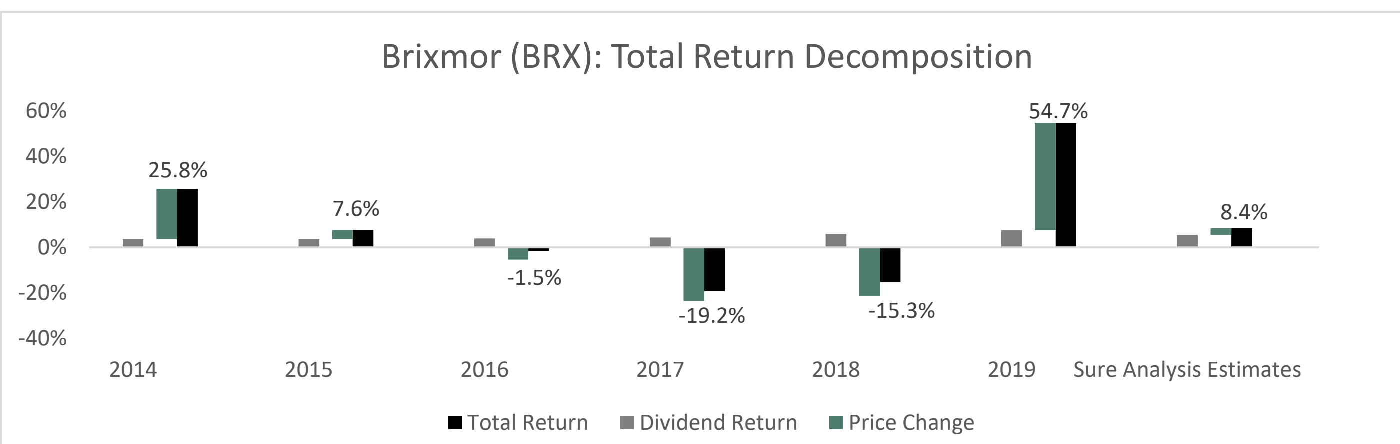
Brixmor has fostered strong relationships with national retailers, and, in return, it receives insights into their strategies and priority access to their expansion plans. A concern is that similar real estate companies such as Kimco Realty Corporation (KIM) with a similar portfolio performed poorly 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 Q4, Brixmor's debt-to-equity ratio was 1.97x, while its debt-to-asset ratio was 66%. Its recent interest coverage ratio was about 4.1x. 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 8.4% in the stock, coming from a current yield of 5.5%, valuation expansion to add 0.6% of returns per year, and FFO per share growth of 3% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1125	1113	1088	1146	1237	1266	1276	1283	1234	1168
Gross Profit	833	825	814	861	928	956	968	968	921	872
Gross Margin	74.1%	74.1%	74.8%	75.1%	75.0%	75.5%	75.9%	75.4%	74.6%	74.7%
SG&A Exp.	95	108	89	121	80	98	92	92	94	102
D&A Exp.	333	416	460	399	397	370	350	345	326	314
Operating Profit	332	231	225	291	395	430	479	495	465	438
Operating Margin	29.5%	20.7%	20.7%	25.4%	31.9%	33.9%	37.6%	38.6%	37.7%	37.5%
Net Profit	(321)	68	(123)	(94)	89	194	276	300	366	275
Net Margin	-28.6%	6.1%	-11.3%	-8.2%	7.2%	15.3%	21.6%	23.4%	29.7%	23.5%
Free Cash Flow	309	174	269	332	479	524	567	552	542	529
Income Tax	(16)									

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets		10032	9604	10172	9682	9498	9320	9154	8242	8142
Cash & Equivalents		158	103	114	61	70	51	57	42	19
Accounts Receivable		145	157	179	182	180	178	232	228	234
Inventories										
Goodwill & Int. Ass.										
Total Liabilities		7575	7327	6887	6702	6578	6393	6246	5406	5399
Accounts Payable										
Long-Term Debt	-	6695	6499	5981	6023	5974	5839	5676	4886	4861
Shareholder's Equity		1858	1721	2342	2904	2870	2923	2908	2836	2744
D/E Ratio		3.60	3.78	2.55	2.07	2.08	2.00	1.95	1.72	1.77

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets			-1.2%	-0.9%	0.9%	2.0%	2.9%	3.3%	4.2%	3.4%
Return on Equity			-6.8%	-4.6%	3.4%	6.7%	9.5%	10.3%	12.8%	9.8%
ROIC			-1.4%	-1.0%	1.0%	2.2%	3.1%	3.5%	4.5%	3.6%
Shares Out.				230	297	298	304	305	300	298
Revenue/Share	5.03	4.98	4.87	6.07	5.06	4.15	4.18	4.20	4.08	3.90
FCF/Share	1.38	0.78	1.20	1.76	1.96	1.72	1.86	1.81	1.79	1.77

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