Tanger Factory Outlet Centers, Inc. (SKT)

Updated February 7th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	$13	**5 Year CAGR Estimate:**	15.2%	**Market Cap:**	$1.2B
Fair Value Price:	$17	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	04/29/2020
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.5%	**Dividend Payment Date:**	05/15/2020
Dividend Yield:	10.6%	**5 Year Price Target:**	$19	**Years Of Dividend Growth:**	27
Dividend Risk Score:	D	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	0.7%

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 510 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 $1.2 billion. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

Tanger released fourth quarter and full year results on January 27th and announced funds from operations (FFO) and adjusted funds from operations (AFFO) of $0.59 per share, down from $0.64 per share in the quarter last year. For the full year, AFFO was $2.31 per share, compared to $2.48 per share for the prior year. FAD (funds available for distribution) payout ratio for the year was 70%, conservative among the REIT universe. Consolidated portfolio occupancy rate was 97% as of the year end of 2019, compared to 96.8% for the prior year. Same center NOI for the consolidated portfolio decreased 0.7% for the full year due to the impact of tenant bankruptcies, lease modifications and store closures. The company announced a 0.7% or $0.01 per share increase to the annualized dividend, to $1.43 per share. This marks the 27th dividend increase, since the company went public in 1993. Throughout 2019, the company repurchased approximately 1.2 million shares worth roughly $20 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.

Guidance for full year 2020 was disappointing as management is expecting for FFO per share of $2.00 at the mid-point, a significant 13% decrease over 2019's results. This is due to poor expectations of projected average occupancy for the year between 92% and 93%, which will fuel same center NOI growth to turn negative, at -6.75% to -8.25%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO	$1.33	$1.47	$1.65	$1.88	$1.97	$2.22	$2.37	$2.46	$2.48	$2.31	***$2.00***	***$2.21***
DPS	$0.77	$0.79	$0.83	$0.89	$0.95	$1.10	$1.26	$1.35	$1.39	$1.42	***$1.43***	***$1.58***
Shares[1]	93	96	99	99	99	100	100	100	98	97	**97**	***95***

In 2020, SKT's focus remains on leasing and marketing their properties. The top priority is to maintain strong occupancy, and it seems this will be one of the most challenging years yet for the investment trust. Their teams will work to recapture space due to previously announced closures and any additional space that may come back from ongoing negotiations with select tenants. Tanger will also focus on strategic market efforts to increase traffic and shopper engagements. AFFO per share has compounded at 3.2% in the last 5 years, and 6.3% in the last 9 years. We estimate that growth will drop due to a dropping occupancy rate and the push to e-commerce, and compound at 2.0% over the next 5 years. The dividend has grown by 8.4% compounded in the last 5 years. We estimate that dividends will grow at the same pace of earnings in the near future, around 2%. The company has bought back $20 million of shares in both 2018 and 2019, however have no plans currently to purchase in 2020. We are impressed by the history of SKT's share

[1] In millions

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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.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/AFFO	19.2	20.0	20.7	17.0	19.0	14.8	15.1	10.8	8.2	7.0	**6.5**	**8.5**
Avg. Yld.	3.0%	2.7%	2.4%	2.8%	2.6%	4.0%	3.5%	5.10%	6.9%	9.5%	**11.0%**	**8.4%**

The current P/AFFO of 6.5 based on 2019's estimated AFFO represents a 42% discount to the 5-year average of 11.2. We estimate that over time, SKT's multiple will expand, however investor sentiment and portfolio occupancy disruptions weigh on the valuation today. An estimated P/AFFO of 8.5 would result in valuation gains of 5.5% annually due to multiple expansion. The 5-year average yield is 6%, but the current yield is 11% as the yield has been pushed to significant highs due to drops in the stock price. Given the expectations of an increased stock price due to increasing growth and multiple expansion, we expect the dividend will come down to 8.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

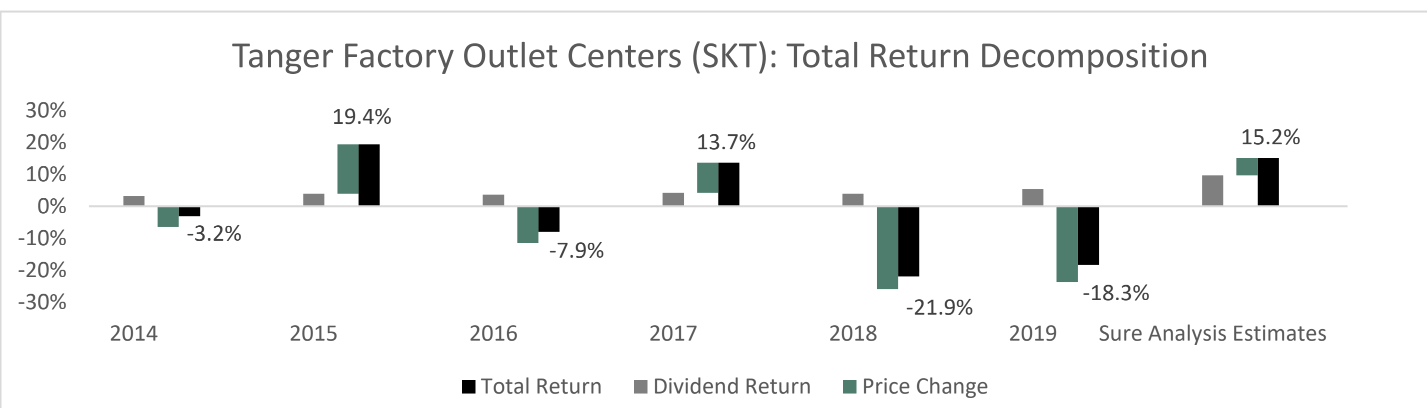
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	58%	54%	50%	47%	48%	59%	53%	55%	*56%*	61%	**72%**	**72%**

The payout ratio for SKT is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 57% is very safe, especially for a REIT, as this sector is known for its high payout ratios. The expected payout of 71% in 2025 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

Tanger will be facing a challenging 2020 as the stock price has been crushed and the yield has been bid up to 10.6%. SKT can expect 2% growth in earnings off the 2020 low-point and 5.5% in multiple expansion as it retraces to its average valuation. We are estimating total returns of 15.2%, while the stock trades 24% below value, and thus we rate SKT a strong buy. 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. However, the overall sentiment in the Mall REIT space is very negative and weighs heavily on share prices over the past few years, so we advise caution.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	276	315	357	385	419	439	466	488	495	478
Gross Profit	183	215	246	264	281	293	314	333	334	321
Gross Margin	66.4%	68.2%	68.9%	68.5%	67.2%	66.7%	67.4%	68.2%	67.6%	67.0%
SG&A Exp.	25	30	37	39	44	44	47	44	44	54
D&A Exp.	78	84	99	96	102	104	115	128	132	132
Operating Profit	80	101	110	129	132	144	152	161	158	144
Op. Margin	29.1%	31.9%	30.7%	33.5%	31.5%	32.9%	32.6%	32.9%	32.0%	30.0%
Net Profit	34	45	53	108	74	211	194	68	44	88
Net Margin	12.4%	14.2%	14.9%	28.0%	17.7%	48.1%	41.6%	13.9%	8.8%	18.4%
Free Cash Flow	119	136	166	187	189	221	239	253	258	258

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1217	1622	1679	2006	2098	2315	2526	2540	2385	2285
Cash & Equivalents	6	8	10	15	17	22	12	6	9	17
Goodwill & Int.	N/A	N/A	51	103	80	57	75	50	29	29
Total Liabilities	795	1093	1165	1449	1574	1709	1821	1928	1879	1829
Accounts Payable	32	51	48	59	70	97	78	90	83	80
Long-Term Debt	715	1026	1094	1328	1443	1552	1688	1764	1713	1570
Total Equity	367	461	483	522	497	575	670	582	480	433
D/E Ratio	1.95	2.23	2.27	2.54	2.90	2.70	2.52	3.03	3.57	3.6

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.9%	3.1%	3.2%	5.8%	3.6%	9.6%	8.0%	2.7%	1.8%	3.8%
Return on Equity	9.1%	10.8%	11.3%	21.4%	14.5%	39.4%	31.1%	10.9%	8.2%	19.2%
ROIC	3.1%	3.3%	3.4%	6.2%	3.8%	10.2%	8.5%	2.9%	1.9%	4.1%
Shares Out.	93	96	99	99	99	100	100	100	98	97
Revenue/Share	3.44	3.75	3.85	4.08	4.46	4.64	4.89	5.17	5.30	5.15
FCF/Share	1.47	1.62	1.79	1.99	2.01	2.33	2.51	2.68	2.77	2.77

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