# Tanger Factory Outlet Centers, Inc. (SKT)

*Updated May 18th, 2019 by Quinn Mohammed*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $6 | **5 Year CAGR Estimate:** | 11.9% | **Market Cap:** | $580M |
| **Fair Value Price:** | $8 | **5 Year Growth Estimate:** | -2.8% | **Ex-Dividend Date:** | - |
| **% Fair Value:** | 75% | **5 Year Valuation Multiple Estimate:** | 5.3% | **Dividend Payment Date:** | - |
| **Dividend Yield:** | 11.8% | **5 Year Price Target:** | $7 | **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 $580 million. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

Tanger released first quarter results on May 11th and announced funds from operations (FF)) and Core FFO of $0.50, down from $0.57 per share for the prior year. FAD (funds available for distribution) payout ratio was 83% for the first quarter, significantly higher than prior quarters, but still within reason for an REIT. Portfolio occupancy rate was 94.3% at the end of Q1, compared to 95.4% in 2019. Sane center NOI for the consolidated portfolio decreased 3.7%, primarily due to anticipated tenant bankruptcies, lease modifications and store closures.

The coronavirus pandemic hit commercial real estate hard, and liquidity and capital preservation are of utmost importance at this time. Tanger drew on its $600 million lines of credit and believe it will sustain the business until more clarity on the COVID-19 impact is understood. At the end of April, $594 million of cash remained on the balance sheet. Going forward, Tanger has announced that they will suspend dividend distributions and conserve roughly $35 million per quarter. To-date, they have paid $0.71 in distributions. It is possible that they will lift the suspension before year-end to remain a dividend aristocrat, however this depends on the severity of the coronavirus impact on the business. To help struggling tenants, the company offered all tenants the option to defer 100% of April and May rents interest free, payable in January and February of 2021. In April, only 12% of rent was collected. The CEO and executives took 25% - 50% pay cuts to preserve financial flexibility. Based on estimated cash expenditures of $25 million per month, the company expects to have sufficient liquidity to meet its obligations for two years (without paying a dividend) without collecting rent.

## 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 | ***$1.15*** | ***$1.33*** |
| **DPS** | $0.77 | $0.79 | $0.83 | $0.89 | $0.95 | $1.10 | $1.26 | $1.35 | $1.39 | $1.42 | ***$0.71*** | ***$0.91*** |
| **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 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 AFFO can grow by 5% from this extreme low point in the near-term. The dividend has grown by 8.4% compounded in the last 5 years. The dividend has been suspended until further notice, but the company has not yet given up its status as a dividend aristocrat. The company has bought back $20 million of shares in both 2018 and 2019, however have no plans currently

[1] In millions

*Disclosure: This analyst has a position in the security discussed in this research report.*

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to purchase in 2020. 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.

## 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 | **5.4** | **7.0** |
| **Avg. Yld.** | 3.0% | 2.7% | 2.4% | 2.8% | 2.6% | 4.0% | 3.5% | 5.10% | 6.9% | 9.5% | **11.0%** | **8.8%** |

The current P/AFFO of 5.4 based on 2020's estimated AFFO represents a 52% 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 7.0 would result in valuation gains of 5.4% 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. While the dividend is currently suspended, the REIT will have to pay out 90% of taxable income and this is not expected to remain negative forever.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

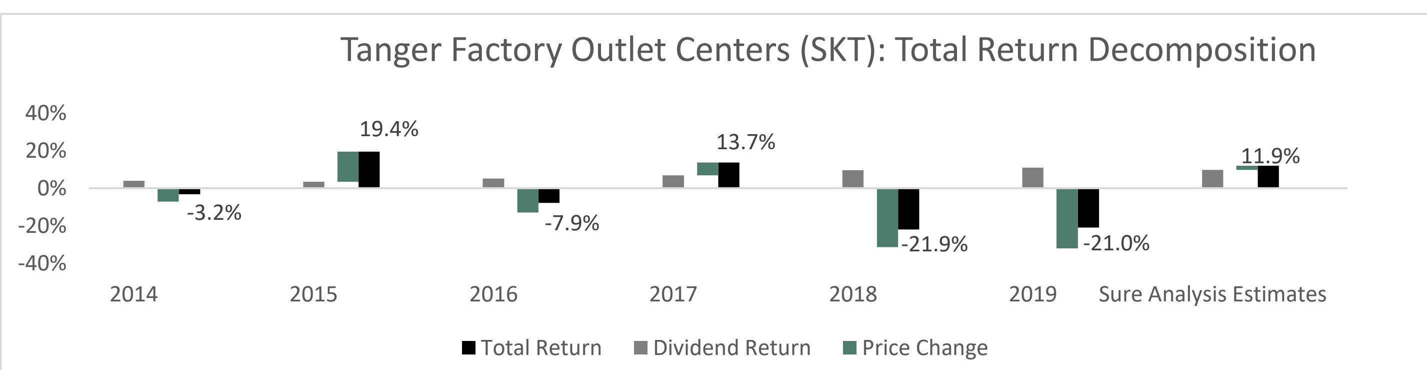
| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 58% | 54% | 50% | 47% | 48% | 59% | 53% | 55% | *56%* | 61% | **62%** | **62%** |

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 63% in 2025 is safe and leaves room for 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 string, however, store closures due to COVID-19 have not made this possible and are suffocating their revenue stream.

## Final Thoughts & Recommendation

Tanger will be facing a challenging 2020 as the stock price has been crushed and the dividend suspended. Given the high number of lease expirations coming up from troubled retailers, SKT's FFO per share is expected to flounder for the foreseeable future. That said, the stock is so cheap that we are still estimating annualized total returns of 11.9% over the next half decade. However, we rate SKT a hold as the situation is dire for retail real estate and the yield will drop as distributions are halted. The overall sentiment in the retail REIT space is negative and has weighed 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.*