Brixmor Property (BRX)

Updated August 24th, 2020 by Kay Ng

Key Metrics

Current Price:	$12	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$3.5B
Fair Value Price:	$10	**5 Year Growth Estimate:**	14.7%	**Ex-Dividend Date:**	N/A
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	N/A
Dividend Yield:	0.0%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	0%

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 392 properties. 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 an investment pipeline that is focused on investing in communities where it sees future growth and divesting in stagnant areas. In Q2 2020, it stabilized 3 value-enhancing reinvestment projects at an average incremental net operating income yield of 9% and added 5 new reinvestment opportunities to its pipeline, including 2 anchor space repositioning projects, 1 outparcel development project, and 2 redevelopment projects that are expected to average incremental NOI yields of 7%. In Q2, it sold 2 shopping centers for gross proceeds of $6.0 million.

Brixmor reported Q2 results on 08/03/20. During the quarter, FFO/share was $0.32, which declined by 33% from the FFO/share generated in Q2 2019 due primarily to $27.8 million of revenues that were deemed uncollectible as per COVID-19 impacts. Brixmor was also able to lease 1.3 million square feet of new and renewal leases. At the end of Q2, Brixmor's occupancy was 92.1% with anchor-leased occupancy of 95.1% and small-shop-leased occupancy of 85.2%.

As of the end of July, tenants representing ~94% of Brixmor's annualized base rent ("ABR") were open and operating. Due to the high uncertainty surrounding the virus, the retail REIT did not provide a 2020 FFO guidance. It has continued to temporarily suspend its dividend, which will be reviewed on a quarterly basis as the COVID-19 situation unfolds. We maintain our estimate of a 2020 FFOPS of $0.96, which is about 50% lower year over year and no dividend for the rest of the year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFOPS	---	---	---	$1.67	$1.81	$1.97	$2.06	$2.08	$1.89	$1.91	***$0.96***	***$1.91***
DPS	---	---	---	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	$1.12	***$0.57***	***$1.12***
Shares[1]	---	---	---	230	297	298	304	305	300	298	***296***	***291***

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. Same property base rent for Q2 2020 contributed 2.9% to same property net operating income growth. The REIT has also identified reinvestment opportunities in 52 projects, costing $392.9 million. However, it might put a halt on most of these to strengthen the company's liquidity and financial position during the highly uncertain times of the virus. As of July 29, tenants representing 94% of Brixmor's ABR were open and operating. We expect the cash distribution to restore to previous levels when the economy normalizes.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025

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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P/FFO	---	---	---	14.1	13.8	17.1	16.1	14.1	12.6	10.2	***12.4***	***10.0***
Avg. Yld.	---	---	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	***0.0%***	***5.9%***

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 10 as the REIT renegotiates expired leases. The above assumes a normalized market after the COVID-19 crisis comes to pass. The stock is expensive in the near term due to COVID-19 impacts.

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%***

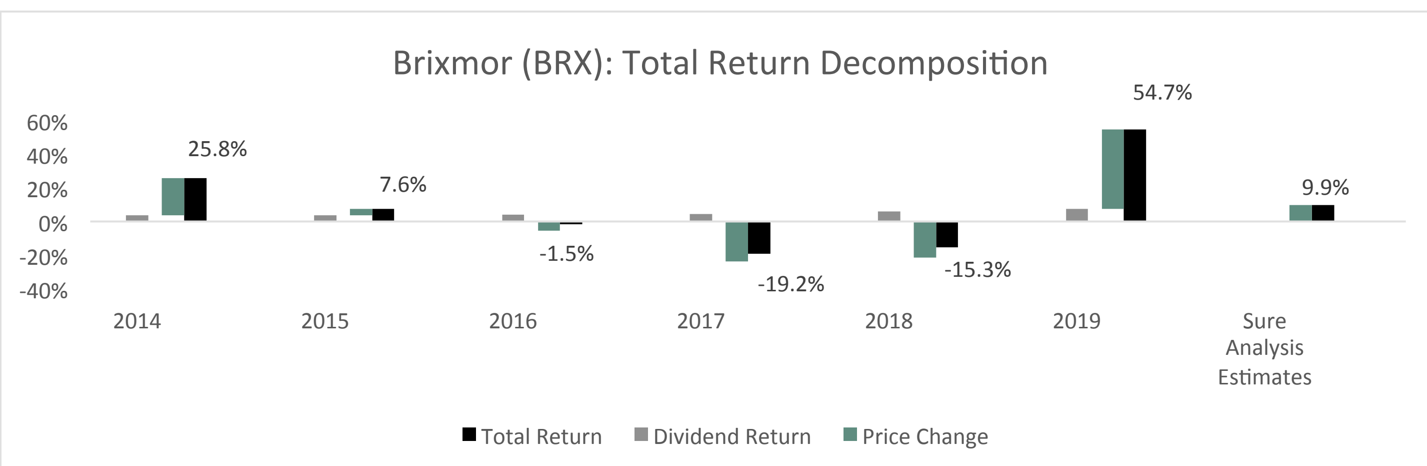
Brixmor has fostered strong relationships with national retailers, and, in return, it receives insights into their strategies and priority access to their expansion plans. Our previous concern that similar real estate companies such as Kimco Realty Corporation (KIM) with a similar portfolio performed poorly during the 2008 crisis came to fruition. Brixmor stock is down ~42% year to date and has suspended its in this economic downturn. The company should survive because it has about 70% of properties that have grocery anchors, total liquidity of $1.4 billion at the end of Q2, and no debt maturities through 2021.

At the end of Q2, Brixmor's debt-to-equity ratio was 2.14x, while its debt-to-asset ratio was 68%. The ratios are high due to the drop in the valuations in its equity and assets.

Final Thoughts & Recommendation

Brixmor is a higher risk stock due to it being more leveraged and has pretty low growth. Over the next five years, we estimate total returns of 9.9% in the stock due to an eventually restored dividend and FFO per share that will rebound to pre COVID-19 levels. Investors are urged to check out higher quality names covered by Sure Dividend.

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.