Tanger Factory Outlet Centers, Inc. (SKT)

Updated August 10th, 2020 by Quinn Mohammed

Key Metrics

Current Price:	$6	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$601M
Fair Value Price:	$8	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	-
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	-
Dividend Yield:	11%	**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 $601 million. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

Tanger release second quarter results on August 5th and announced funds from operations (FFO) and Core FFO of $0.10, down significantly from $0.52 per share for the prior year. FAD payout ratio was a whopping 447% for the second quarter, skyrocketing from the reasonable 76% last year. For the first half of 2020, FAD payout ratio came in at 140%. On an FFO basis, first half of 2020 payout ratio was 119%. Shareholders are counting on Q3 and Q4 to bring this payout ratio down significantly. Portfolio occupancy rate was 93.8% at the end of Q2, compared to 96% in 2019. Same center NOI for the consolidated portfolio decreased $39 million to $37 million due to the impact of the COVID-19 pandemic and the write-off of rental revenues of $34 million.

The coronavirus pandemic hit commercial real estate hard, and Tanger drew on its $600 million line of credit in Q1, which has been virtually all paid off in Q2. As of the end of Q2, the company had total liquidity of approximately $564 million, including its unused capacity under its lines of credit. There has been no update on Tanger's dividend suspension, and the company is conserving 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. As of July 31st, Tanger collected 72% of July rents billed. In late March, Tanger offered all tenants in its consolidated portfolio the option to defer 100% of April and May rents interest free, payable in equal installments due in January and February of 2021 to proactively address COVID-19 related store closures. The company is expecting to collect 43% of rents billed for the second quarter, to defer 26% and continue to negotiate 6%. Tanger wrote off 25% of second quarter rents; of which 9% related to tenant bankruptcies and 14% related to one-time concessions in exchange for landlord-favorable amendments to lease structure.

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	***$1.30***	***$1.30***
DPS	$0.77	$0.79	$0.83	$0.89	$0.95	$1.10	$1.26	$1.35	$1.39	$1.42	***$0.71***	***$0.71***
Shares[1]	93	96	99	99	99	100	100	100	98	97	**97**	***95***

In 2020, SKT's focus remains on leasing, marketing their properties, and making it through the COVID-19 pandemic. The top priority is to maintain strong occupancy, and this is 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, such as the release of the Tanger Virtual Shopper and curbside pick-up programs. 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 will remain

[1] In millions

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stagnant in the near-term, due to many leases expiring. 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 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	**4.9**	**5.5**
Avg. Yld.	3.0%	2.7%	2.4%	2.8%	2.6%	4.0%	3.5%	5.10%	6.9%	9.5%	**11.0%**	**9.9%**

The current P/AFFO of 4.9 based on 2020's estimated AFFO represents a 56% 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 5.5 would result in valuation gains of 2.1% annually due to multiple expansion. 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

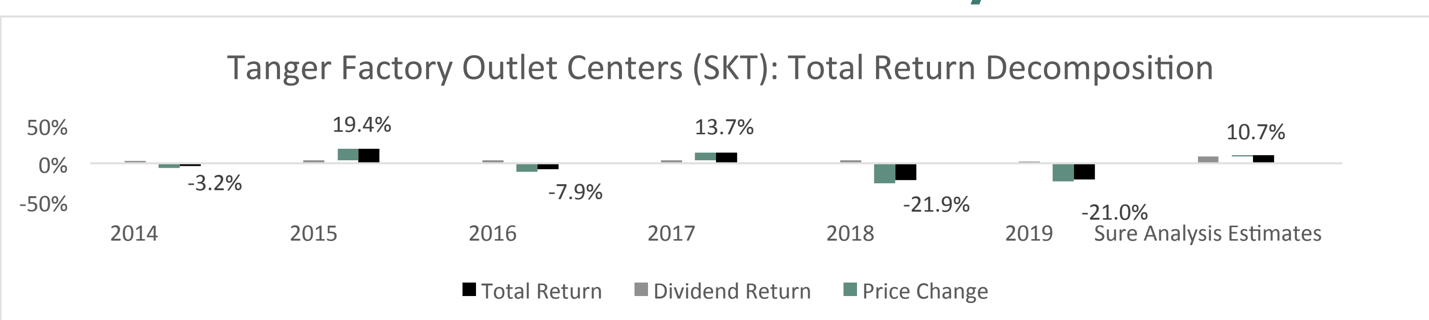
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	58%	54%	50%	47%	48%	59%	53%	55%	*56%*	61%	**55%**	**55%**

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 suffocated their revenue stream in Q2.

Final Thoughts & Recommendation

Tanger is facing a challenging 2020 as the stock price has been crushed and the dividend suspended. SKT can expect 0% growth in earnings off the 2020 low-point and 2.1% in multiple expansion as it retraces closer to its average valuation. We are estimating total returns of 10.7%, while the stock trades 10% below value, however we rate SKT a hold as the situation is dire for commercial real estate and the yield will drop as distributions halted. The overall sentiment in the Mall REIT space is 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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Disclosure: This analyst has a position in the security discussed in this research report.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	315	357	385	419	439	466	488	495	478	
Gross Profit	215	246	264	281	293	314	333	334	321	
Gross Margin	68.2%	68.9%	68.5%	67.2%	66.7%	67.4%	68.2%	67.6%	67.0%	
SG&A Exp.	30	37	39	44	44	47	44	44	54	
D&A Exp.	84	99	96	102	104	115	128	132	132	
Operating Profit	101	110	129	132	144	152	161	158	144	
Op. Margin	31.9%	30.7%	33.5%	31.5%	32.9%	32.6%	32.9%	32.0%	30.0%	
Net Profit	45	53	108	74	211	194	68	44	88	
Net Margin	14.2%	14.9%	28.0%	17.7%	48.1%	41.6%	13.9%	8.8%	18.4%	
Free Cash Flow	136	166	187	189	221	239	253	258	258	

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1622	1679	2006	2098	2315	2526	2540	2385	2285	
Cash & Equivalents	8	10	15	17	22	12	6	9	17	
Goodwill & Int.	N/A	51	103	80	57	75	50	29	29	
Total Liabilities	1093	1165	1449	1574	1709	1821	1928	1879	1829	
Accounts Payable	51	48	59	70	97	78	90	83	80	
Long-Term Debt	1026	1094	1328	1443	1552	1688	1764	1713	1570	
Total Equity	461	483	522	497	575	670	582	480	433	
D/E Ratio	2.23	2.27	2.54	2.90	2.70	2.52	3.03	3.57	3.6	

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.1%	3.2%	5.8%	3.6%	9.6%	8.0%	2.7%	1.8%	3.8%	
Return on Equity	10.8%	11.3%	21.4%	14.5%	39.4%	31.1%	10.9%	8.2%	19.2%	
ROIC	3.3%	3.4%	6.2%	3.8%	10.2%	8.5%	2.9%	1.9%	4.1%	
Shares Out.	96	99	99	99	100	100	100	98	97	
Revenue/Share	3.75	3.85	4.08	4.46	4.64	4.89	5.17	5.30	5.15	
FCF/Share	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.