



Federal Realty Investment Trust (FRT)

Updated November 16th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$92.7	5 Year CAGR Estimate:	9.2%	Market Cap:	\$7B
Fair Value Price:	\$90.0	5 Year Growth Estimate:	5.9%	Ex-Dividend Date:	12/31/20
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	1/15/21
Dividend Yield:	4.6%	5 Year Price Target	\$120	Years Of Dividend Growth:	53
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	1.0%

Overview & Current Events

Federal Realty is one of the larger real estate investment trusts (REITs) in the United States. The trust was founded in 1962 and concentrates in high-income, densely populated coastal markets in the US, allowing it to charge more per square foot than its competition. Federal Realty trades with a market capitalization of \$7 billion today.

Federal Realty reported Q3 earnings on 11/5/20. FFO per share came in at \$1.22, down sharply from \$1.43 in the year-ago quarter. Total revenue came in at \$208.2M, down from \$233.2M in the year-ago quarter.

Despite the steep declines, there were some positive signs. Rent collections continued to trend positively with 85% of total Q3 rents collected. During the third quarter they also signed 101 leases for 481,105 square feet of retail space, demonstrating leasing volumes at pre-COVID levels. Meanwhile, FRT issued \$400 million of green bonds and ended the quarter with \$863 million of cash and cash equivalents and total liquidity of \$1.9 billion.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	\$3.88	\$4.00	\$4.31	\$4.41	\$4.79	\$5.05	\$5.65	\$5.74	\$6.23	\$6.33	\$4.55	\$8.00
DPS	\$2.66	\$2.72	\$2.84	\$3.02	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.24	\$5.25
Shares¹	62	64	65	67	69	69	72	73	74	75	75	79

We use funds-from-operations (FFO) instead of earnings-per-share for REITs as the latter is messy and uninformative for this industry. Federal Realty's funds-from-operations have not dipped year-over-year at any point in the past decade, a tremendously impressive feat given that the trust operates in the highly cyclical real estate sector. Of course, that streak will end in 2020 due to COVID-19.

While growth numbers have not always been impressive, the simple fact that it has such a consistent track record of safety and stability when it comes to funds-from-operations makes it one of the most desirable REITs in the market.

Federal Realty's growth moving forward will be comprised of a continuation of higher rent rates on new leases and its impressive development pipeline fueling asset base expansion. Margins are expected to continue to rise slightly as it redevelops pieces of its portfolio and same-center revenue continues to move higher.

2019 results support the long-term thesis for Federal Realty as same-store NOI continued to grow and occupancy remains robust. The industry has seen some high-profile bankruptcies, although Federal Realty has largely been immune.

However, we see this as a key risk to rent prices over the long-term for Federal Realty. Performance is suffering this year and likely will next year due to the headwinds from COVID-19, but we expect a strong recovery.

We assume normalized FFO of \$6 per share for 2020 to account for some permanent impairment of the business due to bankruptcies this year. We use this assumption in our valuation analysis.

¹ Share count in millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	19.4	21.2	23.6	24.3	27.8	27.2	27.0	22.9	19.6	20.7	16.2	15.0
Avg. Yld.	3.5%	3.2%	2.8%	2.9%	2.7%	2.6%	2.5%	3.0%	3.3%	3.2%	4.6%	4.4%

Federal Realty's valuation now stands at 16.2 times our 2020 FFO estimate, barely above our fair value estimate of 15 times FFO. As a result, we expect minor annual headwinds to total returns from margin compression over the next half decade. We also expect Federal Realty to continue increasing its streak of 53 consecutive years of dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2025
Payout	68%	69%	68%	66%	69%	69%	72%	68%	69%	65%	93%	66%

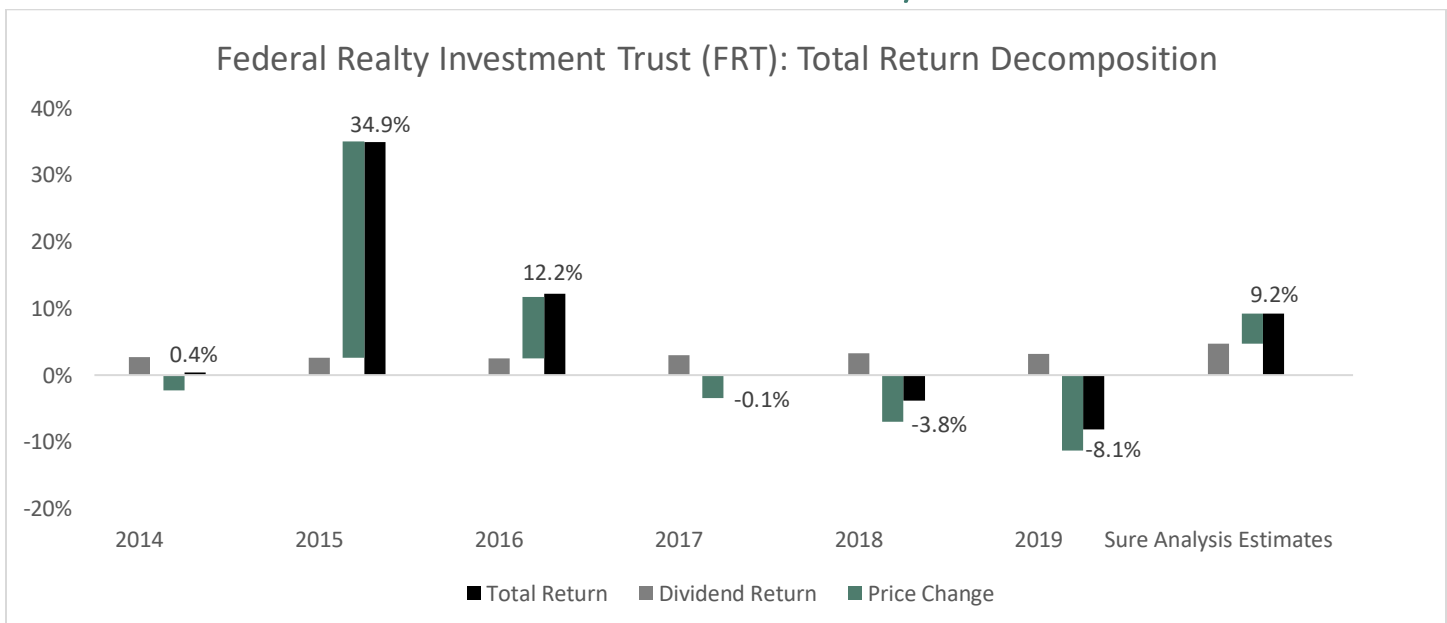
This year's payout ratio is much higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see that changing. The preferred mix of dividend payments as a percentage of FFO is two-thirds, and that is where we see the dividend in the coming years. Federal Realty's dividend payment is still considered moderately safe and should continue to be raised for many years to come.

Federal Realty's competitive advantages include its superior development pipeline, its focus on high-income, high-density areas and its decades of experience in running a world-class REIT. These qualities allow it to perform admirably, and even grow through recessions, when some of its lesser peers struggle to keep the lights on.

Final Thoughts & Recommendation

We are forecasting total annual returns of 9.2% going forward. Federal Realty is a high-quality name that offers not only capital appreciation potential, but a nice yield as well. We continue to rate the REIT as a buy given its growth pipeline, the attractive dividend, and appealing valuation. That being said, it is important for investors to note that there remains considerable uncertainty about the impacts of the coronavirus.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	542	551	606	637	686	744	802	857	915	936
Gross Profit	373	381	427	447	474	511	548	585	628	637
Gross Margin	68.8%	69.2%	70.4%	70.1%	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%
SG&A Exp.	24	29	31	32	32	36	33	36	34	43
D&A Exp.	120	127	142	161	171	175	194	216	244	240
Operating Profit	230	226	254	254	271	300	321	332	350	355
Operating Margin	42.4%	41.1%	41.9%	39.9%	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%
Net Profit	123	144	152	163	165	210	250	290	242	354
Net Margin	22.7%	26.1%	25.1%	25.5%	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%
Free Cash Flow	168	102	116	24	(15)	87	(10)	(60)	148	52

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,160	3,666	3,899	4,219	4,547	4,897	5,423	6,276	6,290	6,795
Cash & Equivalents	16	68	37	89	48	21	23	15	64	127
Accounts Receivable	69	76	74	85	93	110	117	210	142	153
Total Liabilities	1,978	2,426	2,588	2,748	2,854	3,115	3,347	3,884	3,822	4,159
Accounts Payable	114	105	121	156	146	147	202	196	178	256
Long-Term Debt	1,080	2,047	2,137	2,250	2,338	2,556	2,727	3,213	3,158	3,357
Shareholder's Equity	1,140	1,206	1,277	1,438	1,594	1,654	1,967	2,107	2,186	2,375
D/E Ratio	0.94	1.68	1.66	1.55	1.46	1.54	1.38	1.42	1.35	1.32

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.8%	4.2%	4.0%	4.0%	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%
Return on Equity	10.6%	12.3%	12.2%	12.0%	10.9%	12.9%	13.8%	14.2%	11.3%	15.5%
ROIC	5.6%	5.2%	4.5%	4.5%	4.2%	5.0%	5.5%	5.6%	4.3%	6.1%
Shares Out.	62	64	65	67	69	69	72	73	74	75
Revenue/Share	8.84	8.80	9.46	9.73	10.17	10.79	11.28	11.87	12.49	12.52
FCF/Share	2.73	1.63	1.81	0.37	(0.22)	1.25	(0.14)	(0.83)	2.02	0.70

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

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