Brixmor Property (BRX)

Updated December 12th, 2020 by Kay Ng

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$4.7B
Fair Value Price:	$13	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	01/05/20
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	01/15/20
Dividend Yield:	5.4%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 395 properties. Brixmor's shopping centers are positioned in the top 50 metropolitan areas in the United States. 59% of its annualized base rent ("ABR") is from essential/hybrid retailers. About 70% of its centers are gocery-anchored. 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 3.5% of ABR.

Brixmor has an investment pipeline that is focused on investing in communities where it sees future growth and divesting in stagnant areas. In Q3 2020, it stabilized 7 value-enhancing reinvestment projects at an average incremental net operating income yield of 9% and added 9 new reinvestment opportunities to its pipeline, including 4 anchor space repositioning projects, 2 outparcel development project, and 3 redevelopment projects that are expected to average an incremental NOI yield of 12%. In Q3, it acquired land adjacent to an existing center for $1.4 million and got gross proceeds of $37.7 million from selling 3 shopping centers, a land parcel, and a partial property.

Brixmor reported Q3 results on 11/04/20. During the quarter, FFO/share was $0.36, which declined by 27% from the FFO/share generated in Q3 2019 due primarily to COVID-19 impacts that led to $21.5 million of revenues that were deemed uncollectible primarily and an $11.3 million reversal of straight-line rental income. Brixmor was also able to lease 2.2 million square feet of new and renewal leases. During Q3, Brixmor's occupancy was 91.2% with anchor-leased occupancy of 94.4% and small-shop-leased occupancy of 84.3%.

About 97% of Brixmor's annualized base rent ("ABR") are open and operating. Due to the high uncertainty surrounding the virus, the retail REIT did not provide a 2020 FFO guidance. Brixmor reinstated a quarterly dividend of $0.215 per share for Q4 and payable on January 15, 2021. We improve our estimate to 2020 FFOPS of $1.33, which is about 30% lower year over 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	***$1.33***	***$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. In Q3, the REIT's same-property net operating income declined by 9.3% year over year. Brixmor's reinvestment projects can be a growth driver, but they will take time to be put into service. Further, 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. We expect the cash distribution to restore to previous levels when the economy normalizes.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	---	---	---	14.1	13.8	17.1	16.1	14.1	12.6	10.2	***12.0***	***10.0***
Avg. Yld.	---	---	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	***5.4%***	***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%***

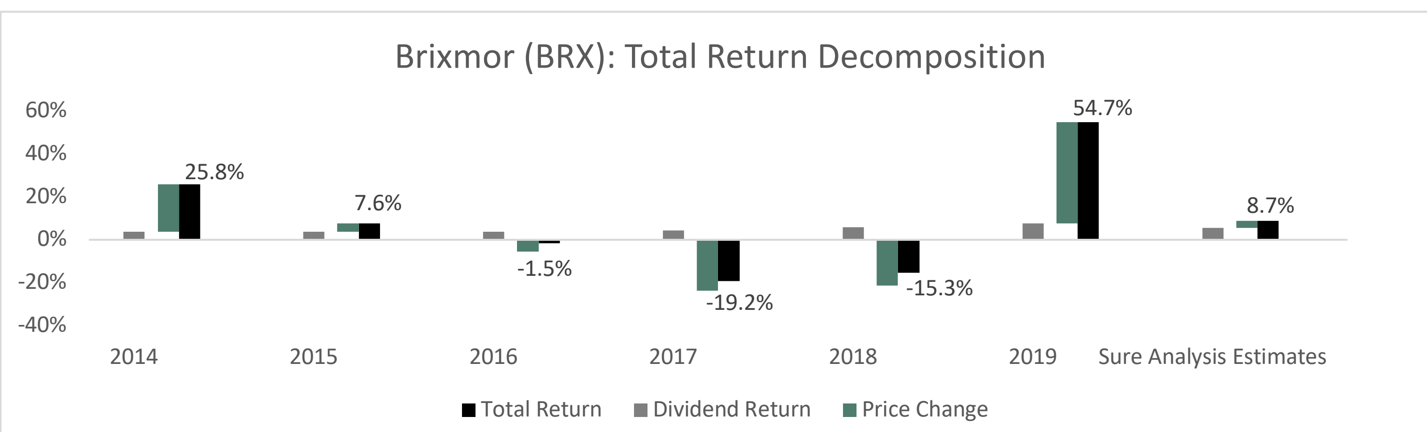
Brixmor has fostered strong relationships with national retailers, and, in return, it receives insights into their strategies and priority access to their expansion plans. Our previous concern that similar real estate companies such as Kimco Realty Corporation (KIM) with a similar portfolio performed poorly during the 2008 crisis came to fruition. In this economic downturn, Brixmor stock is down ~23% year to date and suspended its dividend for a portion of the year. The company should survive because it has ~70% of properties that have grocery anchors, total liquidity of $1.9 billion at the end of Q3, and no debt maturities until 2022.

At the end of Q3, Brixmor's debt-to-equity ratio was 2.18x, while its debt-to-asset ratio was 69%. The ratios are high due largely to bigger debt obligations, such as issuing the $300 million Senior Notes due 2030 to boost liquidity.

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 8.7% 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.