Tanger Factory Outlet Centers, Inc. (SKT)

Updated February 18th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$15	**5 Year CAGR Estimate:**	1.9%	**Market Cap:**	$1.4B
Fair Value Price:	$12	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	-
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date:**	-
Dividend Yield:	4.8%	**5 Year Price Target:**	$13	**Years of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	-

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 37 upscale outlet shopping centers. SKT owns properties across 20 states and in Canada, totaling 13.7 million square feet. SKT leases to over 2,600 stores operated by over 500 different brand name companies. SKT is headquartered in Greensboro, North Carolina. Its market capitalization is $1.4 billion. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

Tanger released fourth quarter results on February 17th and announced funds from operations (FFO) and Core FFO of $0.54 per share, down from $0.59 per share for the prior year. FAD payout ratio for the fourth quarter was null, as the dividend was suspended at that time. The dividend has now been reinstated at $0.1775 per share for the first quarter, and the Trust specifically mentions that they intend to meet minimum taxable income distribution requirements to maintain the REIT status, which is not encouraging phrasing.

FFO per share for the full year 2020 of $1.58 was down 30% compared to $2.27 in 2019. Core FFO, or AFFO, was $1.57 per share vs $2.31 per share in the prior year. Funds available for distribution (FAD) payout ratio was 47% for 2020, which is in-line historically, but was only achieved through the unfortunate distribution suspension which resulted in a payout to shareholders half the size of 2019. This dividend cut in 2020 broke a 27-year dividend growth streak.

At the end of January, the Trust had $84 million in cash and $600 million of undrawn unsecured lines of credit. Tanger has no significant debt maturities until December 2023.

The Trust provided guidance for 2021 and is estimating diluted FFO per share of $1.50 at the mid-point, and $1.52 per share of Core FFO, barring any further government-mandated retail shutdowns. In addition, they estimate $0.35 per share of net income.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	$1.47	$1.65	$1.88	$1.97	$2.22	$2.37	$2.46	$2.48	$2.31	$1.57	**$1.50**	**$1.58**
DPS	$0.79	$0.83	$0.89	$0.95	$1.10	$1.26	$1.35	$1.39	$1.42	$0.71	**$0.71**	**$0.75**
Shares[1]	96.0	99.0	99.0	99.0	100.0	100.0	100.0	98.0	98.0	97.0	**97.0**	**95.0**

In 2021, SKT's focus remains on leasing, marketing their properties, and making it through the COVID-19 pandemic homestretch. The top priority is to maintain strong occupancy, and to keep rent collections high. The Trust 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 had grown steadily prior to the COVID pandemic, however the multiple government-mandated store closures, stay-at-home orders and expiring leases severely damaged AFFO. We estimate that AFFO will remain stagnant in the near-term, due to many leases expiring over the next few years. The 27-year-old dividend growth streak was ended after the dividend was effectively cut in half. The Trust has bought back $20 million of shares in both 2018 and 2019, however bought none in

[1] In millions

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

2020 and cannot purchase shares again until July 1st, 2021, due to amended debt agreements. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	N/A	N/A	9.7	9	7.6	9.5	9.7	11.1	11.8	12.7	**9.9**	**8.0**
Avg. Yld.	N/A	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	**4.8%**	**5.9%**

The current P/AFFO of 9.0 based on 2021's estimated AFFO represents a 10% discount to the 5-year average of 11. 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 8.0 would result in valuation losses of 4.1% annually due to multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

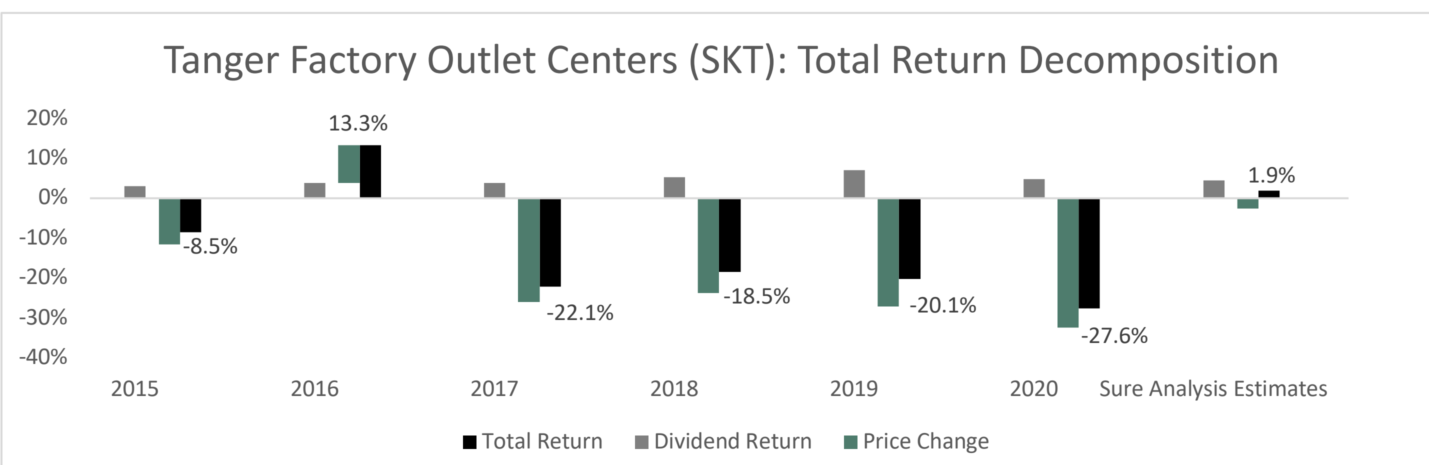
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	54%	50%	47%	48%	50%	53%	55%	56%	61%	45%	**47%**	**47%**

The payout ratio for SKT is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 54% is safe, especially for a REIT, as this sector is known for its high payout ratios. The expected payout of 47% in 2026 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 2020.

Final Thoughts & Recommendation

Tanger was gravely affected by the pandemic and the Trust lost their 27-year-old dividend growth streak. We conservatively estimate 1% earnings growth from the 2021 low-point and -4.1% in multiple contraction. We are estimating total returns of 1.9%, while the stock trades 23% above fair value, thus we rate SKT a sell at the current price. The overall sentiment in the Mall 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	315	357	385	419	439	466	488	495	478	390
Gross Profit	215	246	264	281	293	314	333	334	321	253
Gross Margin	68.2%	68.9%	68.5%	67.2%	66.7%	67.4%	68.2%	67.6%	67.0%	64.8%
SG&A Exp.	30	37	39	44	44	47	44	44	54	48
D&A Exp.	84	99	96	102	104	115	128	132	132	
Operating Profit	101	110	129	132	144	152	161	158	144	88
Op. Margin	31.9%	30.7%	33.5%	31.5%	32.9%	32.6%	32.9%	32.0%	30.0%	22.6%
Net Profit	45	53	108	74	211	194	68	44	88	-36
Net Margin	14.2%	14.9%	28.0%	17.7%	48.1%	41.6%	13.9%	8.8%	18.4%	-9.3%
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	2190
Cash & Equivalents	8	10	15	17	22	12	6	9	17	85
Goodwill & Int.	N/A	51	103	80	57	75	50	29	29	
Total Liabilities	1093	1165	1449	1574	1709	1821	1928	1879	1829	1831
Accounts Payable	51	48	59	70	97	78	90	83	80	
Long-Term Debt	1026	1094	1328	1443	1552	1688	1764	1713	1570	1568
Total Equity	461	483	522	497	575	670	582	480	433	341
D/E Ratio	2.23	2.27	2.54	2.90	2.70	2.52	3.03	3.57	3.6	4.59

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%	-1.6%
Return on Equity	10.8%	11.3%	21.4%	14.5%	39.4%	31.1%	10.9%	8.2%	19.2%	-9.4%
ROIC	3.3%	3.4%	6.2%	3.8%	10.2%	8.5%	2.9%	1.9%	4.1%	-1.8%
Shares Out.	96	99	99	99	100	100	100	98	97	97
Revenue/Share	3.75	3.85	4.08	4.46	4.64	4.89	5.17	5.30	5.15	4.21
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.