Brixmor Property (BRX)

Updated March 9th, 2021 by Kay Ng

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	3.8%	**Market Cap:**	$6B
Fair Value Price:	$19	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	04/03/21
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	04/15/21
Dividend Yield:	4.3%	**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 393 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 grocery-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 reported Q4 and full-year 2020 results on 02/11/21. Generally, rent collection has improved, as ~97% of the company's ABR was open and operating for the quarter. Specifically, the company collected 89.2% of rents from Q2-Q4 2020. Rent collection further improved to 91.5% in January 2021. In Q4, its FFOPS was $0.33.

Brixmor has an investment pipeline that is focused on investing in communities where it sees future growth and divesting in stagnant areas. In 2020, it stabilized $113.2 million of reinvestment projects at an average incremental net operating income ("NOI") yield of 10% and completed $127.5 million of asset sales. It also reported a decline in same-property NOI of 5.4%, primarily related to the COVID-19 pandemic. It reported 2020 FFOPS of $1.47, down 23% year over year.

For 2020, Brixmor paid two quarterly dividends totally $0.57 per share. It reinstated a quarterly dividend of $0.215 per share that was payable on Jan. 15 and Apr. 15, 2021. We're maintaining this dividend estimate for the rest of the year. We give an initial 2021 FFOPS estimate of $1.62.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFOPS	---	---	$1.67	$1.81	$1.97	$2.06	$2.08	$1.89	$1.91	$1.47	***$1.62***	***$1.91***
DPS	---	---	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	$1.12	$0.57	***$0.86***	***$1.12***
Shares[1]	---	---	230	297	298	304	305	300	298	298	***298***	***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 Q4 2020, the REIT's same-property net operating income declined by 6.4% 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 coronavirus pandemic. We expect the cash distribution to restore to previous levels when the economy normalizes. It could take a few years for its FFO and dividend to normalize. We use the 2019 FFOPS as a benchmark for Brixmor's 2021 normalized FFOPS. Therefore, we have a five-year growth estimate of 0% for the stock.

1. Shares in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	---	---	14.1	13.8	17.1	16.1	14.1	12.6	10.2	8.8	***12.4***	***10.0***
Avg. Yld.	---	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	4.4%	***4.3%***	***6.9%***

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. However, based on its normalized FFOPS, BRX is about fairly valued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

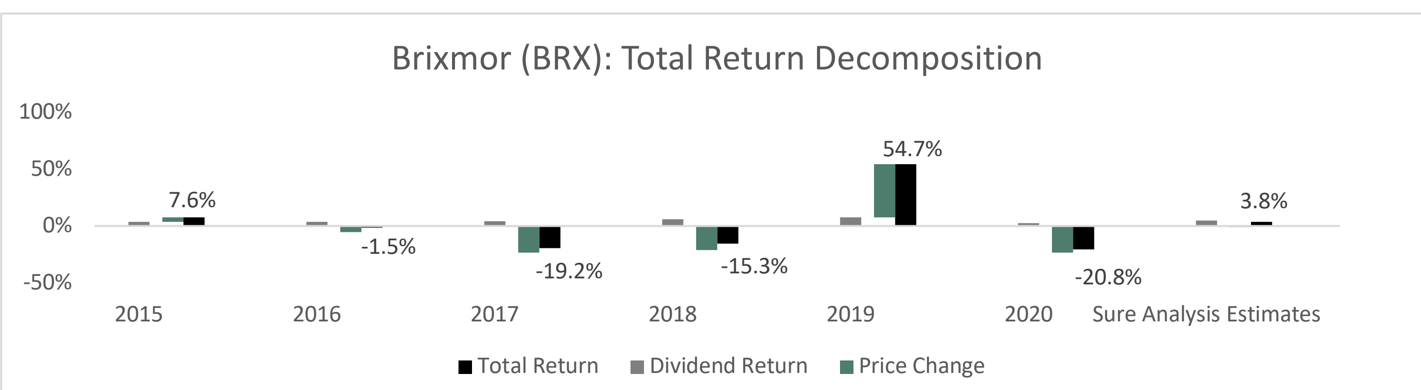
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	48%	40%	47%	49%	51%	59%	59%	39%	***53%***	***59%***

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 was down +60% from peak to trough 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 $1.6 billion at the end of Q4, and debt maturities of $250 million in 2022. At the end of Q4, Brixmor's debt-to-equity ratio was 2.11x, while its debt-to-asset ratio was 68%. The ratios are high due largely to bigger debt obligations, such as in 2020, issuing $800 million of Senior Notes due 2030 (and redeeming $500 million of Senior Notes due 2022) to boost liquidity. That's not too big an issue when interest rates are low – its interest expense increased by $10.2 million in 2020 versus 2019.

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 3.8% in the stock due to an eventually restored dividend and FFO per share that will rebound to pre COVID-19 levels. We rate Brixmor as a "sell" at current levels. Investors are urged to check out higher quality names covered by Sure Dividend.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1113	1088	1146	1237	1266	1276	1283	1234	1168	1053
Gross Profit	825	814	861	928	956	968	968	921	872	773
Gross Margin	74.1%	74.8%	75.1%	75.0%	75.5%	75.9%	75.4%	74.6%	74.7%	73.4%
SG&A Exp.	108	89	121	80	98	92	92	94	102	98
D&A Exp.	416	460	399	397	370	350	345	352	332	336
Operating Profit	231	225	291	395	430	479	495	465	438	339
Operating Margin	20.7%	20.7%	25.4%	31.9%	33.9%	37.6%	38.6%	37.7%	37.5%	32.2%
Net Profit	68	-123	-94	89	194	276	300	366	275	121
Net Margin	6.1%	-11.3%	-8.2%	7.2%	15.3%	21.6%	23.4%	29.7%	23.5%	11.5%
Free Cash Flow	174	269	332	479	524	567	552	542	529	443

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	10032	9604	10172	9682	9498	9320	9154	8242	8142	8342
Cash & Equivalents	158	103	114	61	70	51	57	42	19	369
Accounts Receivable	145	157	179	182	180	178	232	228	234	240
Total Liabilities	7575	7327	6887	6702	6578	6393	6246	5406	5399	5661
Long-Term Debt	6695	6499	5981	6023	5974	5839	5676	4886	4861	5167
Shareholder's Equity	1858	1721	2342	2904	2870	2923	2908	2836	2744	2681
D/E Ratio	3.60	3.78	2.55	2.07	2.08	2.00	1.95	1.72	1.77	1.93

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	-1.2%	-0.9%	0.9%	2.0%	2.9%	3.3%	4.2%	3.4%	1.5%
Return on Equity	---	-6.8%	-4.6%	3.4%	6.7%	9.5%	10.3%	12.8%	9.8%	4.5%
ROIC	---	-1.4%	-1.0%	1.0%	2.2%	3.1%	3.5%	4.5%	3.6%	1.6%
Shares Out.	---	---	230	297	298	304	305	300	298	298
Revenue/Share	4.98	4.87	6.07	5.06	4.15	4.18	4.20	4.08	3.90	3.54
FCF/Share	0.78	1.20	1.76	1.96	1.72	1.86	1.81	1.79	1.77	1.49

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