Simon Property Group (SPG)

Updated May 11th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$127	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$41.59B
Fair Value Price:	$127	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	07/09/21[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	07/24/21[2]
Dividend Yield:	4.1%	**5 Year Price Target**	$162	**Years of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

Simon Property Group is a real estate investment trust (REIT) that was formed in 1993. The trust focuses on retail properties, mainly in the US, with the goal of being the premier destination for high-end retailers and their customers. The trust has interests in about 230 different properties that amount to nearly 200 million square feet of leasable space. Simon produces about $4.5 billion in annual revenue and has a market capitalization of $35.85 billion.

On May 10th, 2021, Simon reported its Q1 earnings for the period ended March 31st, 2021. Total revenues were $1.23 billion, 8.1% lower vs. the comparable period last year, as the company's international operations continue to be affected by governmental closure orders and capacity restrictions. As a result, FFO per share also declined by 10.8% compared to last year, coming in at $2.48. In Q1, Simon collected 95% of its net billed rents. Portfolio NOI, which includes domestic properties, international properties, and Simon's investment in Taubman Realty Group, increased by 4.0% compared to the prior-year period, which means that the recent acquisition has been resilient. In fact, Tubman's rental collection levels have also now returned to their pre-COVID levels. However, occupancy stood at 90.8% at the end of the quarter, declining from 91.3% in Q4.

During the quarter, the company managed to leverage its AAA balance sheet to issue two $1.5 billion worth of senior notes with an average term of 8.4 years for as low as 1.96%. Overall, while Simon's results remain hurt from COVID-19, the company is seeing a steady and gradual recovery. As a result, management raised its FY2021 FFO/share guidance within a range of $9.70 to $9.80. We have updated our estimates accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/Shr	$6.89	$7.98	$8.85	$8.90	$9.86	$10.49	$11.21	$12.13	$12.37	$9.11	***$9.75***	***$12.44***
DPS	$3.50	$4.10	$4.65	$5.15	$6.05	$6.50	$7.15	$7.90	$8.20	$6.00	***$5.20***	***$6.64***
Shares[3]	294.0	310.0	310.0	311.0	309.0	313.0	311.0	309.0	306.0	316.0	***375.8***	***420.0***

Simon's FFO history has been quite resilient, seeing only a minor dip in profitability during the Great Recession. Simon's focus on high-end retailing has proven an immense source of strength in recent years, and we see that steady performance continuing. However, given Simon's already dominant position in the retail sector, the seemingly unstoppable rise of e-commerce crimping demand for physical stores, and how mature the current economic cycle is, it looks like Simon and other retail REITs will have a harder time with future FFO growth. That said, Simon is still the best retail REIT in the market by many metrics. Its occupancy rates remain high. It also charges more than $56 per square foot on average (0.6% higher year-over-year), which is tremendously high for the retail space. Simon has built a niche with high-end retailers over the years such that it has the most desirable spaces and developments and thus sees a virtuous combination of high occupancy and leasing rates. Its recent investment in Taubman seems to be performing stably, as well, with the company likely able to unlock operational efficiencies going forward.

[1] Estimate

[2] Estimate

[3] In millions

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Simon was forced to cut its dividend to withstand its weaker performance caused by the pandemic, though we expect its growth to resume amid what seems to be a rather quick resumption in rental collections and occupancy. We expect FFO/share and DPS growth of 5% and 5%, respectively, going forward, reflecting the REIT's potential for growth in its square feet and lease rates while still remaining prudent due to the headwinds surrounding the retail.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	16.5	18.7	18.4	19	19.1	19.2	15.1	13.9	11.9	8.8	***13.0***	***13.0***
Avg. Yld.	3.1%	2.7%	2.9%	3.0%	3.2%	3.2%	4.2%	4.7%	5.6%	6.5%	***4.1%***	***4.1%***

Simon's valuation has been remarkably steady for much of the past decade, and today, at just 13 times FY2021's FFO estimates, the stock seems fairly priced. We believe a valuation of around 13 times its FFO reflects the company's qualities while still accounting for the market's distaste and risks attached to mall REITs. Further, despite the recent cut, the stock's current yield of 4.1% still remains higher than its decade average of around 3.9%, which income-oriented investors are likely to appreciate given the current environment of ultra-low rates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

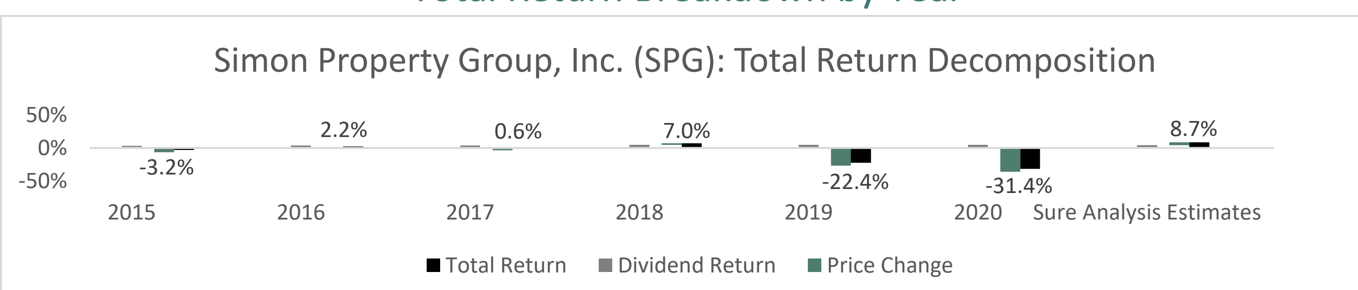
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Payout	51%	51%	53%	58%	61%	62%	64%	65%	66%	66%	***53%***	***53%***

Simon's quality metrics have been very stable in the past decade as the company has kept operating metrics such as balance sheet leverage and interest coverage (2.7X) in a fairly narrow range. Profitability should improve further over time, with Simon's capacity to raising prices remaining robust. The payout ratio is currently at a very safe range too. The market seems to have priced much of that upside already, nonetheless. Simon's competitive advantage is in its world-class portfolio of properties that allow it to charge industry-best leasing rates. Another advantage is its low cost of capital that comes from its A-rated balance sheet, enabling it to invest in ways that competitors cannot afford to. That being said, it is not immune to recessions, as proven by its dividend cut during 2020 amid, admittedly, a black swan event for the industry. However, despite the cut, Simon's operations have held up fairly well, partially recovered already.

Final Thoughts & Recommendation

Overall, we forecast Simon to produce robust 8.7% total annualized returns in the coming years. We believe that Simon offers investors a decently valued stock with an above-average yield and dividend growth prospects ahead. While the balance sheet is A-rated, investors should remember that it did cut its dividend during the last recession and once again during the ongoing pandemic. That being said, its strong metrics, world-class management, high-quality real estate portfolio, and the so-far promising acquisition of Taubman should enable it to rebound fairly quickly once the current COVID-19-related headwinds pass. The stock earns a hold rating due to projected returns.

Total Return Breakdown by Year



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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	4306	4256	4544	4871	5266	5435	5539	5658	5,755	4,608
Gross Profit	3387	3456	3706	3988	4306	4464	4559	4650	4,734	3,720
Gross Margin	78.6%	81.2%	81.6%	81.9%	81.8%	82.1%	82.3%	82.2%	82.2%	80.7%
SG&A Exp.	282	291	319	355	350	366	338	334	185	121
D&A Exp.	1112	1301	1333	1286	1239	1328	1357	1350	1,394	---
Operating Profit	1943	2000	2189	2385	2669	2721	2802	2911	2,908	1,972
Operating Margin	45.1%	47.0%	48.2%	49.0%	50.7%	50.1%	50.6%	51.5%	50.5%	42.8%
Net Profit	1025	1434	1320	1409	1828	1839	1948	2440	2,102	1,113
Net Margin	23.8%	33.7%	29.0%	28.9%	34.7%	33.8%	35.2%	43.1%	36.5%	24.2%
Free Cash Flow	1560	1711	1860	1934	2004	2574	2862	2969	2,932	---
Income Tax	12	16	40	28	20	30	23	37	30	-4.6

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	26217	32587	33325	29532	30565	31104	32258	30686	31232	34790
Cash & Equivalents	799	1185	1691	612	701	560	1482	514	669	1012
Acc. Receivable	487	521	520	580	625	665	743	764	832	1237
Goodwill & Int.	296	507	376	312	276	285	209	151	96	---
Total Liabilities	20673	25694	26502	23581	25349	26144	28019	26889	28320	31310
Accounts Payable	1092	1374	1223	1260	1324	1214	1269	1317	1391	1312
Long-Term Debt	18446	23113	22670	20853	22417	22977	24564	23238	24096	26720
Total Equity	4605	5866	5805	5049	4428	4267	3643	3254	2484	2997
D/E Ratio	3.97	3.91	3.88	4.09	5.01	5.33	6.66	7.05	9.54	8.79

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.0%	4.9%	4.0%	4.5%	6.1%	6.0%	6.1%	7.8%	6.8%	3.4%
Return on Equity	21.8%	27.4%	22.6%	26.0%	38.6%	42.3%	49.3%	70.8%	73.3%	40.6%
ROIC	4.4%	5.3%	4.4%	5.0%	6.7%	6.6%	6.9%	8.7%	7.8%	3.9%
Shares Out.	294	310	310	311	309	313	311	309	306	309
Revenue/Share	14.67	14.04	14.65	15.68	16.98	17.38	17.78	18.27	18.69	149.2
FCF/Share	5.32	5.64	5.99	6.22	6.46	8.23	9.19	9.59	9.52	---

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