Regency Centers Corporation (REG)

Updated June 28th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$10.8B
Fair Value Price:	$63	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	08/13/2021[1]
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	08/24/2021
Dividend Yield:	3.7%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	8
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.4%

Overview & Current Events

Regency Centers Corporation is a fully integrated real estate investment trust specializing in retail locations whose tenants include highly productive grocers, restaurants, service providers, and various other best-in-class retailers. The trust has full or partial ownership interests in 406 retail properties primarily anchored by market-leading grocery stores. Its properties are principally located in affluent and infill trade areas across the United States and contain 51,639 million square feet of gross leasable area. The trust generates about $1 billion in revenues and is based in Jacksonville, Florida.

On May 6th, 2021, Regency Centers Corporation reported its Q1 results for the quarter ended March 31st, 2021. Revenues declined by around 3% compared to last year, to $268.31 million, with occupancy falling by 50 basis points sequentially, to 92.5%. Nareit FFO was $153.4 million, 7.6% lower YoY, as Regency continues to be unfavorably impacted by the COVID-19 pandemic. FFO decline included tenant vacancy issues and uncollectible lease income related to cash basis tenants, though partially offset by revenues related to prior owed rental collections from such tenants who are catching up. On a per-share basis, FFO landed at $0.90 vs. $0.98 in Q1-2020.

Subsequent to the quarter-end (as of May 3rd), the trust had collected 93% of the first quarter pro-rata base rent. Regency also continues to make progress on FY2020 accounts receivable. As of reporting its Q1 results, Regency had collected 85%, 91%, and 93% of Q2's, Q3's, and Q4-2020's pro-rata base rent, respectively. Following management's expectations of a faster recovery in retail locations than expected, the outlook was raised. Management now estimates FY2021 FFO/share of $3.33-3.43 (previously $2.96-3.14.) We have utilized $3.40 in our calculations, slightly higher than this range's midpoint.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/shr	$2.50	$2.47	$2.63	$2.91	$2.92	$2.74	$3.10	$3.84	$3.90	$2.96	***$3.40***	***$4.14***
DPS	$1.85	$1.85	$1.85	$1.88	$1.94	$2.00	$2.10	$2.22	$2.34	$2.38	***$2.38***	***$2.63***
Shares[2]	87.8	89.6	91.4	92.4	94.4	100.9	159.5	169.7	167.5	169.2	***169.7***	***200.0***

Regency has achieved a solid track record of slowly but gradually higher FFO/share over time. The 10-year and 5-year FFO/share CAGRs stand at 1.9% and 4.4%, respectively. Over the past few years, the trust has faced increased pressure due to retail locations suffering against consumers' shift towards e-commerce. While its largest tenants include grocery majors such as Kroger (3%), Whole Foods (2.6%), and TJX (and 2.6% of annualized rent), which shouldn't go out of business any time soon, Regency's growth prospects remain limited.

COVID-19 further negatively affected the trust's performance, leading to rent deferrals and outstanding rental collections, which remain unpaid, as shown by the most recent report. Nonetheless, due to Regency's many tenants' recession-proof nature (grocers), coupled with management's robust guidance amid an improving trading environment, we expect FFO/share growth of 4% in the medium term, boosted by short-term unpaid rents being collected.

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[1] Estimated dividend dates based on past dividend dates.

[2] Share count is in millions.

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Regency slashed its dividend during the Great Financial Crisis and resumed its DPS growth in 2015. Since then, dividends have grown annually. We expect DPS growth of around 2% in the medium-term, which underlying FFOs could sustain.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	17.6	19.8	18.3	19.6	23.6	31.4	20.6	17.2	17.2	13.5	***18.9***	***18.5***
Avg. Yld.	4.2%	3.8%	3.9%	3.3%	2.8%	2.3%	3.3%	3.4%	3.5%	6.0%	***3.7%***	***3.4%***

Regency has traded at a relatively consistent valuation, around 20 times its FFO. While the stock has rallied from last year's lows, we believe that the current valuation multiple is rather fair, reflecting both the underlying risks and the trust's tenant diversification. We expect a medium-term P/FFO of around 18.5, quite close to the current multiple. The stock is currently offering a yield of 3.7%, and despite the risks associated with retail REITs, we expect it to remain below 4% due to the lack of substantial yields in the current market environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	74%	75%	70%	65%	66%	73%	68%	58%	60%	80%	***70%***	***64%***

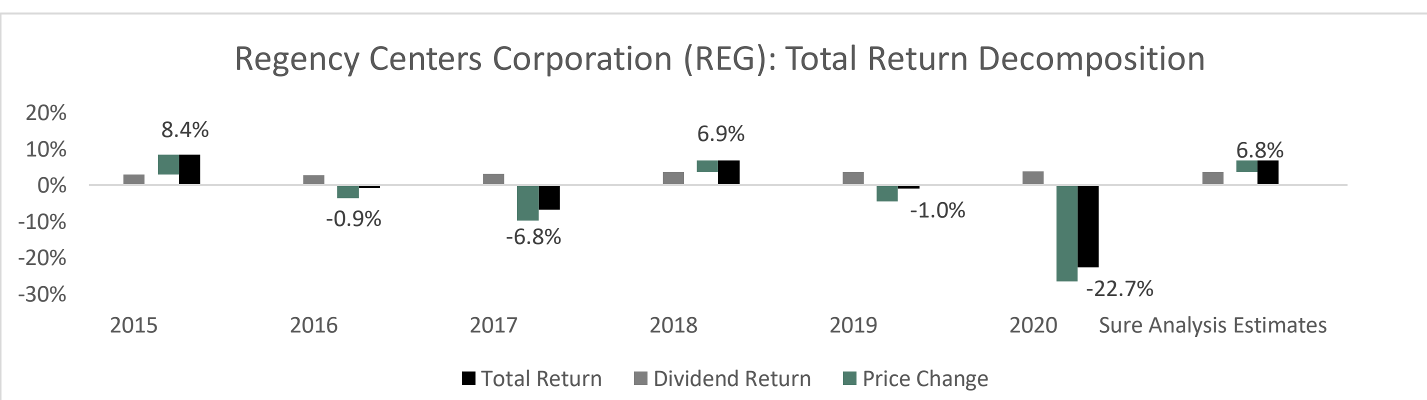
While Regency did cut its dividend back during the Great Financial Crisis, the resiliency shown during the pandemic combined with the relatively tolerable 70% payout ratio based on this year's expected FFO/share, we don't expect a dividend cut. That being said, if the trust's financials were to be under pressure again, a cut is not unlikely either. Overall, the trust enjoys some decent qualities, including a quality tenant base of blue-chip companies, with no tenant accounting for more than 3.5% of total revenues. It also maintains a strong balance sheet with a BBB+ credit rating from S&P, has $1.2 billion in liquidity, and features a net debt to EBITDA ratio of 5.9x, which is rather comfortable.

Still, we can't ignore the fact the trust is currently operating in what is likely the least attractive real estate sub-sector, with issues such as missing rental collections already materializing. A prolonged recession is likely to adversely impact the trust's financials and lead to a dividend cut.

Final Thoughts & Recommendation

Regency Centers has shown a robust track record of FFO generation, maintaining solid financials even during the ongoing pandemic despite facing significant headwinds during the past year. Management's improved guidance along with our prudent growth rate estimates, point towards an annualized medium-term return of around 6.8%. Hence we rate shares a Hold. Investors should be wary of the underlying risks involved in holding retail REITs, nonetheless.

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	470	474	489	538	570	614	984	1,121	1,133	1,016
Gross Profit	350	354	364	401	425	453	731	815	827	703
Gross Margin	74.4%	74.8%	74.5%	74.6%	74.6%	73.7%	74.2%	72.7%	73.0%	69.2%
SG&A Exp.	56	62	61	60	66	65	68	65	75	75
D&A Exp.	134	128	134	148	147	162	334	360	374	346
Operating Profit	166	166	164	185	205	211	240	380	370	270
Operating Margin	35.4%	35.1%	33.6%	34.3%	35.9%	34.4%	24.3%	33.9%	32.6%	26.5%
Net Profit	51	26	150	187	150	165	176	249	239	45
Net Margin	10.9%	5.5%	30.6%	34.8%	26.3%	26.8%	17.9%	22.2%	21.1%	4.4%
Free Cash Flow	218	257	251	278	286	297	470	610	621	499
Income Tax	3	13		(1)	-	-	(10)			

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,987	3,853	3,914	4,197	4,183	4,489	11146	10945	11132	10937
Cash & Equivalents	11	22	81	114	37	13	45	45	113	376
Accounts Receivable	53	54	57	66	78	85	114	126	143	126
Goodwill & Int. Ass.	27	42	45	52	105	119	811	701	550	363
Total Liabilities	2,117	2,108	2,052	2,261	2,100	1,864	4,413	4,494	4,842	4,879
Accounts Payable	102	127	147	181	165	139	234	225	214	302
Long-Term Debt	1,982	1,942	1,855	2,021	1,864	1,642	3,595	3,715	3,920	3,923
Shareholder's Equity	1,533	1,406	1,518	1,582	1,729	2,266	6,692	6,398	6,213	5,985
D/E Ratio	1.10	1.12	1.01	1.06	0.91	0.63	0.54	0.58	0.63	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.3%	0.7%	3.9%	4.6%	3.6%	3.8%	2.3%	2.3%	2.2%	0.4%
Return on Equity	3.5%	1.8%	10.2%	12.1%	9.1%	8.3%	3.9%	3.8%	3.8%	0.7%
ROIC	1.3%	0.7%	4.0%	4.9%	3.8%	4.0%	2.4%	2.4%	2.4%	0.4%
Shares Out.	87.8	89.6	91.4	92.4	94.4	100.9	159.5	169.7	167.5	169.2
Revenue/Share	5.33	5.29	5.35	5.82	6.01	6.07	6.15	6.59	6.75	6.00
FCF/Share	2.47	2.87	2.74	3.01	3.01	2.93	2.94	3.59	3.70	2.95

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