Brixmor Property (BRX)

Updated August 13th, 2021 by Kay Ng

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	1.8%	**Market Cap:**	$7B
Fair Value Price:	$20	**5 Year Growth Estimate:**	0.6%	**Ex-Dividend Date:**	10/04/21
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	10/15/21
Dividend Yield:	3.7%	**5 Year Price Target**	$21	**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 389 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 its Q2 2021 results on 08/02/21. Its rent collection continued to improve. Specifically, the company collected 96.5% of billed based rent in Q2 2021 versus 94.2% for Q1 2021. For Q2, it reported funds from operations ("FFO") of $138.6 million, a 47% rebound from the prior year's quarter. On a per-share basis, FFO was $0.46, a recovery of 44% year over year. As well, it witnessed a rebound in same property net operating income ("NOI") – up 13.9% versus Q2 2020. The results in the first half of the year (H1) provide a bigger picture. FFO jumped 16% to $269 million. FFO per share increased 15% to $0.90. Same property NOI climbed 5.7% versus H1 2020. Brixmor has an investment pipeline that is focused on investing in communities where it sees future growth and divesting in stagnant areas. For the quarter, it stabilized $20.3 million of reinvestment projects at an average incremental NOI yield of 18%, completed $64.0 million of acquisitions, and sold $69.4 million of assets. Brixmor improved its 2021 FFOPS guidance to $1.70-$1.76. We're using $1.73, the midpoint guidance of that, as our estimate.

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	***$1.73***	***$1.97***
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***

For 2020, Brixmor paid two quarterly dividends totally $0.57 per share. It reinstated a quarterly dividend of $0.215 per share at the start of 2021. We're maintaining this dividend estimate for the rest of the year. 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. Management estimates the REIT will grow same-property NOI by 4.5-6.0% in 2021 thanks to a rebound from the pandemic impacts. 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 couple of 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 0.6% 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	***13.6***	***10.5***
Avg. Yld.	---	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	4.4%	***3.7%***	***5.4%***

Much of the growth Brixmor is experiencing now is from a recovery of results after the pandemic disruptions in 2020. The retail industry as a whole will still experience headwinds from online sales. Therefore, we target a more conservative fair P/FFO of 10.5 versus its five-year average P/FFO of 12.4. That said, the majority of Brixmor's tenants are anchored by businesses, including food and fitness, that should not be greatly impacted by online sales. If it can show resilient and growing results after the economy normalizes from the pandemic, we will expand its fair valuation. The stock appears ~30% too expensive due to COVID-19 impacts. However, based on its normalized FFOPS, BRX is about 17% overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

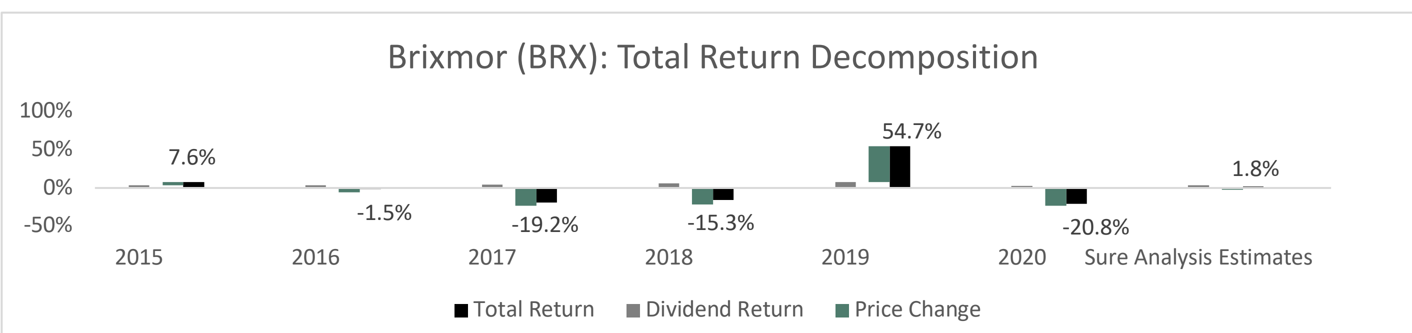
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	48%	40%	47%	49%	51%	59%	59%	39%	***50%***	***57%***

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 $1.7 billion at the end of Q2 2021, and debt maturities of $250 million in 2022. At the end of Q2 2021, Brixmor's debt-to-equity ratio was 2.09x, 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. However, the debt level is a hidden risk that would play out in a rising interest rate environment.

Final Thoughts & Recommendation

Brixmor is a higher risk stock due to it being more leveraged and having low growth. Over the next five years, we estimate total returns of 1.8% in the stock due to an eventually restored dividend and a FFO-per-share growth rate of 0.6%. We rate Brixmor as a "sell" at current levels. Investors are urged to explore 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.