Kite Realty Group Trust **(KRG)**

Updated August 18th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$1.6 B
Fair Value Price:	$17	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	09/30/2021
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	10/08/2021
Dividend Yield:	3.8%	**5 Year Price Target:**	$22	**Years of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.8%

Overview & Current Events

Kite Realty Group Trust is a full-service, vertically integrated real estate investment trust that owns mainly open-air community shopping centers across the United States. The trust has a diverse portfolio of community, neighborhood, and lifestyle centers. Kite Realty Group trades on the NYSE under the ticker symbol KRG and is headquartered Indianapolis, Indiana. The Trust has a market capitalization of $1.6 billion. Kite Realty Group Trust owns 83 operating retail properties comprising 16.3 million square feet.

Kite Realty Group released second quarter results on August 2nd. The Trust reported FFO of $29.9 million, or $0.34 per diluted common share. After adjustments, the Trust generated identical results and posted AFFO of $0.34 per share, a 13.3% gain over the prior year. KRG's same-property net operating income (NOI) rose 10.1% year-over-year. Additionally, 98% of second quarter base rent was collected.

During the quarter, the Trust executed on 73 new and renewal leases, totaling 637,000 square feet, which is more than double the prior year quarter's leasing activity. Annualized base rent (ABR) per square foot for the retail portfolio rose 2.2% year-over-year, to $18.48. KRG has leased 91.6% of the portfolio at the end of the second quarter, but only a total of 89.2% of tenants have commenced the payment of cash rent. The economic occupancy percentage of 89.2% compares unfavorably to the prior year quarter's 92.4%. KRG's net-debt-to-Adjusted EBITDA was 6.4x at quarter end.

On July 18th, KRG entered into a definitive merger agreement with Retail Properties of America, Inc. where RPAI will merge with and into a KRG Oak, LLC. The trust awaits approval by RPAI's stockholders and KRG's shareholders. The transaction is expected to close in the fourth quarter of 2021.

Leadership raised 2021 guidance, and now estimates 2021 adjusted FFO to be between $1.29 to $1.35, for a mid-point of $1.32. Estimates exclude the impact from the proposed merger, other than merger and acquisition costs to-date.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	$0.44	$0.43	$1.49	$1.77	$1.99	$2.06	$2.04	$2.00	$1.66	$1.29	***$1.32***	***$1.68***
DPS	$0.96	$0.96	$0.96	$1.02	$1.08	$1.14	$1.21	$1.27	$1.14	$0.45	***$0.72***	***$0.76***
Shares[2]	15.9	16.7	23.5	58.4	83.5	83.5	83.7	83.7	83.9	84.1	***84.5***	***88.0***

Kite Realty has generated a strong long-term adjusted funds from operations growth, but the five year AFFO growth has been muted due to the impact of the COVID-19 pandemic on 2020 results. Over the last nine and five years, KRG has generated AFFO growth of 12.7% and -8.3% annually, respectively. Given the current low-point, we estimate that KRG can produce 5.0% AFFO growth in the near term.

Kite Realty will grow by expanding their number of retail properties, the number of states and markets they operate in, and by boosting their properties' annualized base rent per square foot. The Trust will use available cash flow, targeted asset recycling, equity, and debt capital to opportunistically acquire more retail properties and redevelop existing

[1] Estimate
[2] In millions

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properties with high investment returns. The trust will grow revenue from operating properties by leasing and re-leasing to strong and diverse retail tenants at increasing rental rates. The trust may also pursue strategic joint ventures. The merger between Retail Properties of America Inc. will see the size of the Trust grow massively.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	42.0	47.6	16.7	14.3	13.4	13.0	10.0	8.0	9.8	9.7	**14.4**	***13.0***
Avg. Yld.	5.3%	4.7%	3.9%	3.9%	4.0%	4.2%	5.8%	7.8%	7.9%	9.1%	**3.8%**	***3.5%***

The current P/AFFO of 14.4 is roughly in between the ten- and five-year average valuations of 18.5 and 10.1 times AFFO. Given the pandemic has caused difficulties in the retail brick and mortar space, and the five-year average valuation is on a down-trend, we peg KRG's fair valuation at 13.0 times AFFO. As a result, we estimate valuation losses of 2.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

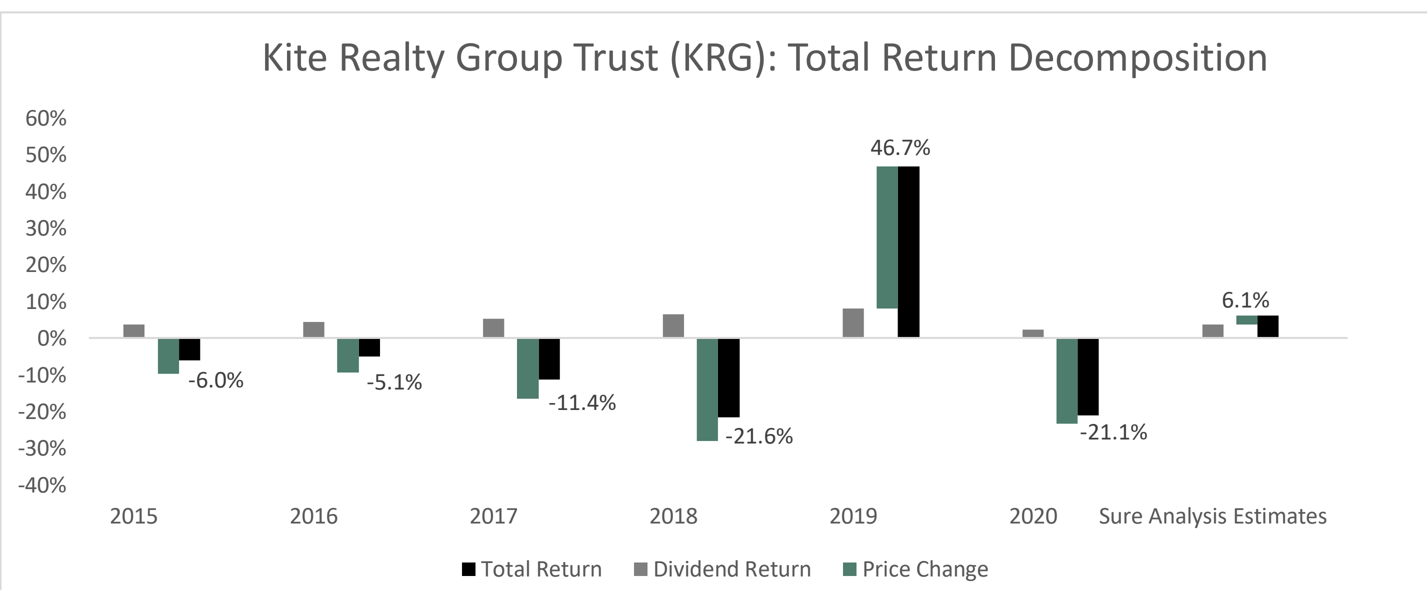
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	218%	223%	64%	58%	54%	55%	59%	64%	69%	35%	***55%***	***45%***

Kite Realty Group slashed the dividend in 2019 after a series of increases, and then further slashed it amidst the COVID pandemic in 2020. As a result, in the most recent years, the payout ratio was fairly covered, but investors cannot count on KRG for consecutively increasing dividends. During the great recession, Kite Realty Group suffered massively as did most real estate related companies. The great recession saw KRG's peak dividend of $3.28 in 2008 fall more than 66% to $0.96 in 2010. The trust does not possess any strong competitive advantage, but it's open air centers have held up slightly better than crowded malls given the nature of the pandemic.

Final Thoughts & Recommendation

Kite Realty Group is soon expected to merge with Retail Properties of America which will see the trust more than double in size. The pandemic has caused AFFO to drop off, but from this low-point we believe the Trust can compound AFFO at 5.0% in the near term. Combined with the 3.8% dividend yield and modest valuation offset of -2.0%, we estimate total returns of 6.1%. Shares trades 11% over our fair value estimate, and given decent total returns, we rate shares a Hold.

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	89	97	129	260	347	354	359	354	315	267
Gross Profit	60	67	92	191	256	263	266	261	231	190
Gross Margin	67.1%	69.3%	71.4%	73.5%	73.8%	74.4%	74.1%	73.8%	73.2%	71.2%
SG&A Exp.	6	7	8	41	20	23	22	21	28	31
D&A Exp.	39	44	58	124	171	179	175	156	135	131
Operating Profit	20	21	30	29	73	65	72	88	71	30
Op. Margin	22.9%	21.7%	23.0%	11.3%	21.1%	18.5%	20.1%	24.8%	22.4%	11.4%
Net Profit	5	(4)	(3)	(6)	27	1	12	(47)	(1)	(16)
Net Margin	5.6%	-4.5%	-2.2%	-2.2%	7.8%	0.3%	3.3%	-13.1%	-0.2%	-6.1%
Free Cash Flow	(31)	(91)	(60)	(52)	77	61	82	95	85	57
Provision For Tax	(0)	(0)	0	0	0	1	(0)	(0)	(0)	(1)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,193	1,289	1,764	3,874	3,756	3,656	3,512	3,172	2,649	2,609
Cash & Equivalents	10	12	18	44	34	20	24	35	31	44
Accts. Receivable	20	21	29	48	51	53	58	58	55	57
Goodwill & Int.		(11)	3	106	95	65	44	26	11	6
Total Liabilities	780	812	1,007	1,972	2,030	2,012	1,946	1,759	1,359	1,377
Accounts Payable	36	54	61	75	81	81	78	86	72	79
Long-Term Debt	689	700	857	1,554	1,724	1,731	1,699	1,543	1,147	1,171
Total Equity	339	371	651	1,796	1,726	1,644	1,565	1,413	1,289	1,231
D/E Ratio	1.68	1.48	1.14	0.82	1.00	1.05	1.09	1.09	0.89	0.95

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.4%	-0.3%	-0.2%	-0.2%	0.7%	0.0%	0.3%	-1.4%	0.0%	-0.6%
Return on Equity	1.4%	-1.2%	-0.6%	-0.5%	1.5%	0.1%	0.7%	-3.1%	0.0%	-1.3%
ROIC	0.5%	-0.4%	-0.2%	-0.2%	0.8%	0.0%	0.4%	-1.5%	0.0%	-0.7%
Shares Out.	15.9	16.7	23.5	58.4	83.5	83.5	83.7	83.7	83.9	84.1
Revenue/Share	5.61	5.77	5.50	4.45	4.15	4.24	4.29	4.23	3.76	3.17
FCF/Share	(1.97)	(5.44)	(2.56)	(0.89)	0.92	0.73	0.98	1.14	1.01	0.68

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