Brixmor Property (BRX)

Updated November 16th, 2021 by Kay Ng

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	1.2%	**Market Cap:**	$7.2B
Fair Value Price:	$20	**5 Year Growth Estimate:**	0.6%	**Ex-Dividend Date:**	01/04/22
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Dividend Payment Date:**	01/18/22
Dividend Yield:	3.9%	**5 Year Price Target**	$21	**Years Of Dividend Growth[1]:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	12%

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 386 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 largest tenants (by annualized base rent) are TJX Companies Inc. (TJX) and The Kroger Co. (KR) with no tenant contributing more than 3.5% of ABR.

Brixmor reported its Q3 2021 results on 11/01/21. Its rent collection improve. Specifically, the company collected 97% of billed based rent in Q3 2021 versus 94% for Q1-Q3 2020. For Q3, it generated 14% higher in revenues of $290.2 million and reported funds from operations ("FFO") of $115.8 million, a 9% rebound from the prior year's quarter. On a per-share basis, FFO was $0.39, a recovery of 8% year over year. As well, it witnessed an increase in same property net operating income ("NOI") of 14.5%.

The year-to-date results provide a bigger picture. Year over year, revenue rose 9% to $857 million, FFO increased by 14% to almost $385 million, and FFO per share increased 13% to $1.29. Same property NOI climbed 8.6% versus the same period in 2020. Brixmor has an investment pipeline that is focused on investing in communities where it sees future growth and is also divesting in stagnant areas. For the quarter, it stabilized $52.5 million of reinvestment projects at an average incremental NOI yield of 10% and sold $25.5 million of assets. The REIT ended the quarter with an in-process reinvestment pipeline that totals approximately $396 million at an expected average incremental NOI yield of 9%. Brixmor also essentially renewed $500 million of Senior Notes at a lower interest rate, saving $3.75 million of interest expense per year. The dividend stock increased its dividend by 12% to $0.24 per share. The company narrowed its 2021 FFOPS guidance to $1.72-$1.75. We maintain our 2021 FFOPS estimate of $1.73.

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	***$0.96***	***$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. And just increased its quarterly dividend to $0.24 per share. The annualized amount of $0.96 is still not back to the 2019 levels yet. We estimate about 3.1% of dividend growth through 2026 to return to the 2019 levels. 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. So far, BRX's same-property NOI of 8.6% has exceeded management's original estimate range of 4.5-6.0% -- mostly 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 take it slowly to maintain 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

[1] Years of Dividend Growth: Restored a dividend in 2021 and increased Q1 2022 dividend by 12% ;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.

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.

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	***14.1***	***10.5***
Avg. Yld.	---	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	4.4%	***3.9%***	***5.4%***

Much of the growth Brixmor is experiencing now is from a recovery 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 34% too expensive due to COVID-19 impacts. However, based on its normalized FFOPS, BRX is about 22% overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

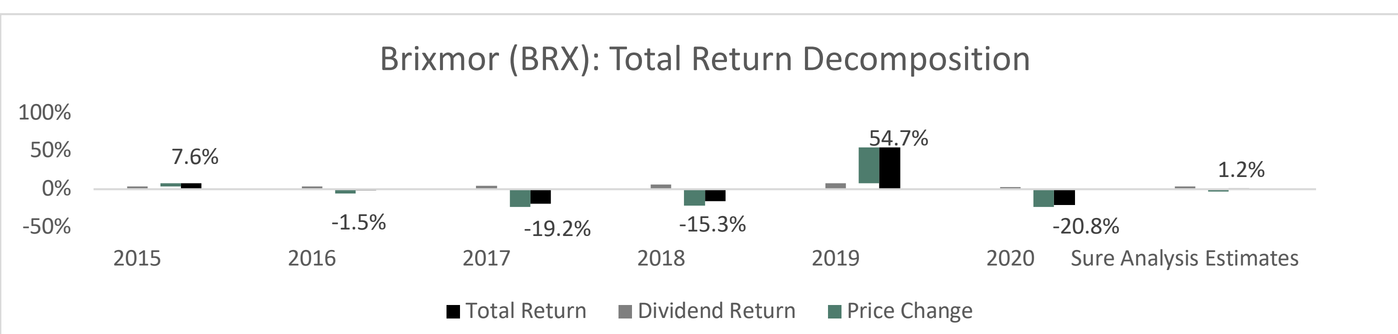
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	48%	40%	47%	49%	51%	59%	59%	39%	***55%***	***57%***

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 Q3 2021, and maturities of only $250 million in 2022. At the end of Q3 2021, Brixmor's debt-to-equity ratio was 2.10x, 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 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 high risk stock due to it being more leveraged and having low growth. Over the next five years, we estimate total returns of 1.2% 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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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.