Federal Realty Investment Trust (FRT)

Updated November 9th, 2021 by Samuel Smith

Key Metrics

Current Price:	$128.1	**5 Year CAGR Estimate:**	-1.0%	**Market Cap:**	$10.4B
Fair Value Price:	$78.2	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/31/21
% Fair Value:	164%	**5 Year Valuation Multiple Estimate:**	-9.4%	**Dividend Payment Date:**	1/18/22
Dividend Yield:	3.3%	**5 Year Price Target**	$100	**Years Of Dividend Growth:**	54
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.0%

Overview & Current Events

Federal Realty is one of the larger real estate investment trusts (REITs) in the United States. The trust was founded in 1962 and concentrates in high-income, densely populated coastal markets in the US, allowing it to charge more per square foot than its competition. Federal Realty trades with a market capitalization of $10.4 billion today.

Federal Realty reported Q3 earnings on 11/04/21. FFO per share came in at $1.51, up from $1.12 in the year-ago quarter. Total revenue came in at $247.3M, up 19.1% from $208.2M in the year-ago quarter.

The company acquired 8 assets totaling 1.9 million square feet on 135 acres of land at gross value of $441 million. During the quarter, Federal Realty signed 119 leases for 430,234 square feet of comparable space. The regular quarterly cash dividend was increased to $1.07 making it their 54th consecutive quarterly increase. The company's portfolio was 90.2% occupied during the quarter, up by 60 basis points quarter-over-quarter.

Meanwhile, FRT as of October 29, 2021, collected 96% of total Q3 billed recurring rents. The company ended the quarter with $178 million of cash and cash equivalents and has approximately $1.2 billion of liquidity in cash and undrawn availability under its $1 billion revolving credit facility. Moreover, the company raised its 2022 earnings per share guidance to $2.25-$2.45 from $1.99-$2.19 and FFO per diluted share guidance to $5.65-$5.85 from $5.30-$5.50.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	$4.00	$4.31	$4.61	$4.94	$5.32	$5.65	$5.91	$6.23	$6.33	$4.52	***$5.21***	***$6.64***
DPS	$2.72	$2.84	$3.02	$3.30	$3.62	$3.84	$3.96	$4.04	$4.20	$4.22	***$4.28***	***$4.50***
Shares[1]	63.7	64.9	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	***77.5***	***85***

We use funds-from-operations (FFO) instead of earnings-per-share for REITs as the latter is messy and uninformative for this industry. Prior to 2020, Federal Realty's funds-from-operations had not dipped year-over-year at any point in the past decade, a tremendously impressive feat given that the trust operates in the highly cyclical real estate sector.

While growth numbers have not always been impressive, the simple fact that it has such a consistent track record of safety and stability when it comes to funds-from-operations and dividends per share makes it one of the most desirable REITs in the market.

Federal Realty's growth moving forward will be comprised of a continuation of higher rent rates on new leases and its impressive development pipeline fueling asset base expansion. Margins are expected to continue to rise slightly as it redevelops pieces of its portfolio and same-center revenue continues to move higher.

As the economy emerges from the COVID-19 crisis, we expect results to support the long-term thesis for Federal Realty as same-store NOI continues to grow and occupancy remains robust. The industry has seen some high-profile bankruptcies, although Federal Realty has largely been immune to any major hits to its FFO prior to the COVID-19 hit in 2020 that has lingered into 2021. The trust continues to work to refill vacancies and recuperate unpaid rents.

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[1] Share count 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.

Moving forward, we expect FFO/share to grow at a brisk pace off its low COVID-induced base in 2020 and 2021. We also expect Federal Realty to continue increasing its streak of 54 consecutive years of dividend increases.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	21.2	23.6	24.3	27.8	27.2	27.0	22.9	19.6	20.7	16.2	***24.6***	***15.0***
Avg. Yld.	3.2%	2.8%	2.8%	2.5%	2.6%	2.5%	3.0%	3.3%	3.2%	5.8%	**3.3%**	**4.5%**

Federal Realty's valuation now stands at 24.6 times our 2021 FFO estimate, well above our fair value estimate of 15 times FFO. As a result, we expect annual headwinds to total returns from margin compression over the next half decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	68%	66%	68%	69%	72%	68%	69%	65%	66%	93%	***82%***	***68%***

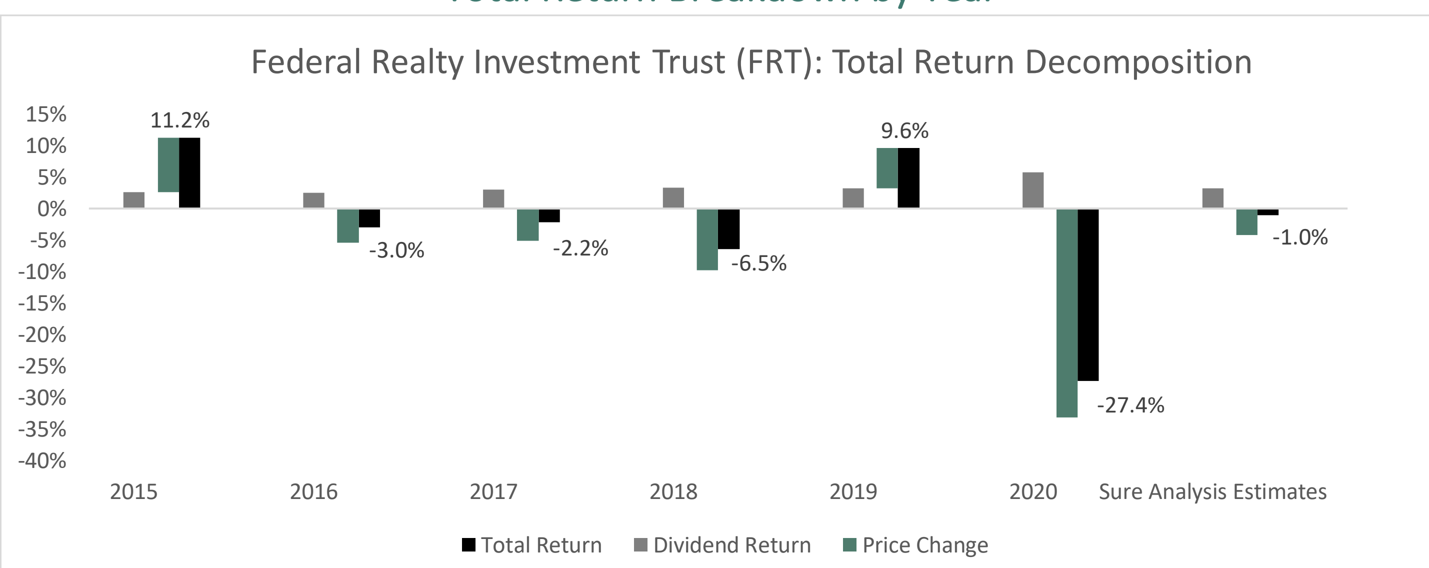
This year's payout ratio is much higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see that changing. The preferred mix of dividend payments as a percentage of FFO is two-thirds, and that is where we see the dividend in the coming years. Federal Realty's dividend payment is still considered moderately safe and should continue to be raised for many years to come.

Federal Realty's competitive advantages include its superior development pipeline, its focus on high-income, high-density areas and its decades of experience in running a world-class REIT. These qualities allow it to perform admirably, and even grow through recessions, when some of its lesser peers struggle to keep the lights on.

Final Thoughts & Recommendation

We are forecasting total annualized returns of -1% going forward. Federal Realty is a high-quality name that offers not only capital appreciation potential due to per share FFO growth, but a nice dividend yield as well. We rate the REIT as a sell given that its growth pipeline and somewhat attractive dividend are completely offset by expected multiple contraction in the years to come.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	551	606	637	686	744	802	857	915	936	835
Gross Profit	381	427	447	474	511	548	585	628	637	545
Gross Margin	69.2%	70.4%	70.1%	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%	65.3%
SG&A Exp.	29	31	32	32	36	33	36	34	43	42
D&A Exp.	127	142	161	171	175	194	216	244	240	255
Operating Profit	226	254	254	271	300	321	332	350	355	249
Operating Margin	41.1%	41.9%	39.9%	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%	29.8%
Net Profit	144	152	163	165	210	250	290	242	354	132
Net Margin	26.1%	25.1%	25.5%	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%	15.8%
Free Cash Flow	102	116	24	(15)	87	(10)	(60)	148	52	(132)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,666	3,899	4,219	4,547	4,897	5,423	6,276	6,290	6,795	7,608
Cash & Equivalents	68	37	89	48	21	23	15	64	127	798
Accounts Receivable	76	74	85	93	110	117	210	142	153	160
Total Liabilities	2,426	2,588	2,748	2,854	3,115	3,347	3,884	3,822	4,159	5,059
Accounts Payable	105	121	156	146	147	202	196	178	256	229
Long-Term Debt	2,047	2,137	2,250	2,338	2,556	2,727	3,213	3,158	3,357	4,291
Shareholder's Equity	1,206	1,277	1,438	1,594	1,654	1,967	2,107	2,186	2,375	2,304
D/E Ratio	1.68	1.66	1.55	1.46	1.54	1.38	1.42	1.35	1.32	1.74

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.2%	4.0%	4.0%	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%	1.8%
Return on Equity	12.3%	12.2%	12.0%	10.9%	12.9%	13.8%	14.2%	11.3%	15.5%	5.6%
ROIC	5.2%	4.5%	4.5%	4.2%	5.0%	5.5%	5.6%	4.3%	6.1%	2.1%
Shares Out.	64	65	67	69	69	72	73	74	75	77
Revenue/Share	8.80	9.46	9.73	10.17	10.79	11.28	11.87	12.49	12.52	11.06
FCF/Share	1.63	1.81	0.37	(0.22)	1.25	(0.14)	(0.83)	2.02	0.70	(1.75)

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