Kite Realty Group Trust (KRG)

Updated November 12th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$4.8 B
Fair Value Price:	$19	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date[1]:**	01/07/2022
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Dividend Payment Date:**	01/15/2022
Dividend Yield:	3.3%	**5 Year Price Target:**	$25	**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 $4.8 billion. Kite Realty Group Trust owns 185 operating retail properties comprising over 30 million square feet.

Kite Realty Group released third quarter results on October 28th. The Trust reported FFO of $22.3 million, or $0.25 per diluted common share. After adjustments, the Trust generated FFO (AFFO) of $0.33 per share, a 10% gain over the prior year. KRG's same-property net operating income (NOI) rose 10.8% year-over-year

During the quarter, the Trust executed on 82 new and renewal leases, totaling 584,000 square feet. Annualized base rent (ABR) per square foot for the retail portfolio rose 3% year-over-year, to $18.54. KRG has leased 92.8% of the portfolio at the end of the third quarter, but only a total of 89.2% of tenants have commenced the payment of cash rent. The economic occupancy percentage of 89.3% compares unfavorably to the prior year quarter's 92.0%. KRG's net-debt-to-Adjusted EBITDA was 6.1x at quarter end.

On October 22nd, KRG completed the merger with Retail Properties of America, Inc. where RPAI will merge with and into a KRG Oak, LLC. The merger is immediately accretive to FFO and NAV, increased KRG's geographic footprint in high-growth markets, and enhanced growth opportunities through strong active development projects.

Leadership has withdrawn their 2021 guidance due to the timing of the merger and anticipates issuing 2022 earnings guidance in the next quarter.

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	***$1.37***	***$1.79***
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 5.5% annual 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 properties with high investment returns. The trust will grow revenue from operating properties by leasing and re-leasing

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[1] Estimate

[2] In millions

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. has seen the size and breadth 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	**16.1**	***14.0***
Avg. Yld.	5.3%	4.7%	3.9%	3.9%	4.0%	4.2%	5.8%	7.8%	7.9%	9.1%	**3.3%**	***3.0%***

The current P/AFFO of 16.1 is on the high end of 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 14.0 times AFFO. As a result, we estimate valuation losses of 2.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

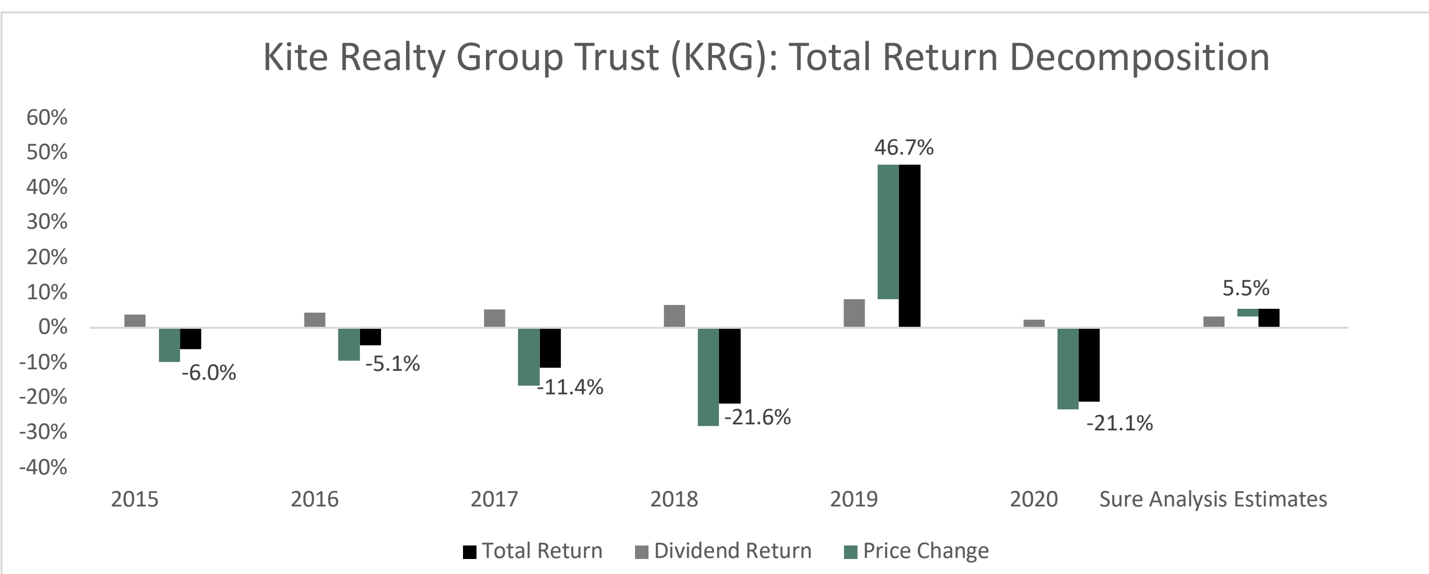
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	218%	223%	64%	58%	54%	55%	59%	64%	69%	35%	***53%***	***42%***

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 5.5% annually in the near term. Combined with the 3.3% dividend yield and modest valuation offset of -2.7%, we estimate annualized total returns of 5.5%. Shares trades 15% above 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.

Disclaimer