# Regency Centers Corporation (REG)

*Updated November 13th, 2021 by Nikolaos Sismanis*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $75 | **5 Year CAGR Estimate:** | 7.0% | **Market Cap:** | $12.78 B |
| **Fair Value Price:** | $75 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 12/15/2021 |
| **% Fair Value:** | 99% | **5 Year Valuation Multiple Estimate:** | 0.1% | **Dividend Payment Date:** | 01/05/2022 |
| **Dividend Yield:** | 3.3% | **5 Year Price Target** | $91 | **Years Of Dividend Growth:** | 9 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | D | **Last Dividend Increase:** | 5.0% |

## Overview & Current Events

Regency Centers Corporation is a fully integrated real estate investment trust specializing in retail locations whose tenants include highly productive grocers, restaurants, service providers, and various other best-in-class retailers. The trust has full or partial ownership interests in 402 retail properties primarily anchored by market-leading grocery stores. Its properties are principally located in affluent and infill trade areas across the United States and contain 50.6 million square feet of gross leasable area. The trust generates about $1 billion in revenues and is based in Jacksonville, Florida.

On November 2nd, Regency's Board of Directors approved a 5% dividend hike to a quarterly rate of $0.625.

On November 4th, 2021, Regency Centers Corporation reported its Q3 results for the period ending September 30th, 2021. Revenues grew by 21.5% compared to last year, to $287.70 million. Regency saw a strong recovery from Q3-2020, as the pandemic had materially affected its operations.

Nareit FFO was $192.6 million, 89.3% higher year-over-year, following continued improvement in operating trends and the absence of one-off expenses that occurred last year. On a per-share basis, FFO landed at $1.12 compared to $0.60 in Q3-2020. In addition, subsequent to the quarter-end (as of Nov. 1st), Regency had collected 98% of the third quarter pro-rata base rent. Further, the trust's wholly-owned portfolio plus its pro-rata share of co-investment partnerships had a leased occupancy of 93.5% at the end of the quarter, 100 basis points higher sequentially. Regency's same-property portfolio was 93.8% leased, suggesting an improvement of 90 basis points from the previous quarter as well.

Following management's expectations of a faster recovery in retail locations than expected, the full-year outlook was raised. Management now forecasts FY2021 FFO/share of $3.93-$3.97 (previously $3.50-$3.58.) We have utilized the midpoint of this range in our estimates.

## Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FFO/shr** | $2.50 | $2.47 | $2.63 | $2.91 | $2.92 | $2.74 | $3.10 | $3.84 | $3.90 | $2.96 | ***$3.95*** | ***$4.81*** |
| **DPS** | $1.85 | $1.85 | $1.85 | $1.88 | $1.94 | $2.00 | $2.10 | $2.22 | $2.34 | $2.38 | ***$2.50*** | ***$2.97*** |
| **Shares[1]** | 87.8 | 89.6 | 91.4 | 92.4 | 94.4 | 100.9 | 159.5 | 169.7 | 167.5 | 169.2 | ***171.3*** | ***200.0*** |

Regency has achieved a solid track record of slowly but gradually higher FFO/share over time. The 10-year and 5-year FFO/share CAGRs stand at 1.9% and 7.6%, respectively. Over the past few years, the trust has faced increased pressure due to retail locations suffering against consumers' shift towards e-commerce. While its largest tenants include grocery majors such as Kroger (3.3%), Whole Foods (2.6%), and TJX (and 2.5% of annualized rent), which shouldn't go out of business any time soon, Regency's growth prospects remain limited. Still, some are worth noting. Regency's current growth drivers include the enchantment its portfolio value within its development pipeline as well as the pursuit of additional accretive investment opportunities. Consequently, we estimate FFO/share growth of 4% in the medium term.

Regency slashed its dividend during the Great Financial Crisis and resumed its DPS growth in 2015. Since then, dividends have grown annually. We expect DPS growth of around 3.5% in the medium-term, which underlying FFOs could sustain.

[1] Share count is in millions.

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## Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/FFO | 17.6 | 19.8 | 18.3 | 19.6 | 23.6 | 31.4 | 20.6 | 17.2 | 17.2 | 13.5 | ***18.9*** | ***19.0*** |
| Avg. Yld. | 4.2% | 3.8% | 3.9% | 3.3% | 2.8% | 2.3% | 3.3% | 3.4% | 3.5% | 6.0% | ***3.3%*** | ***3.3%*** |

Regency has traded at a relatively consistent valuation, around 20 times its FFO. While the stock has rallied from last year's lows, we believe that the current valuation multiple is rather fair, reflecting both the underlying risks and the trust's tenant diversification. We expect a medium-term P/FFO of around 19, similar to the current multiple. The stock is currently offering a yield of 3.3% and, despite the risks associated with retail REITs, we expect it to remain at similar levels due to the lack of substantial yields in the current market environment.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 74% | 75% | 70% | 65% | 66% | 73% | 68% | 58% | 60% | 80% | ***63%*** | ***62%*** |

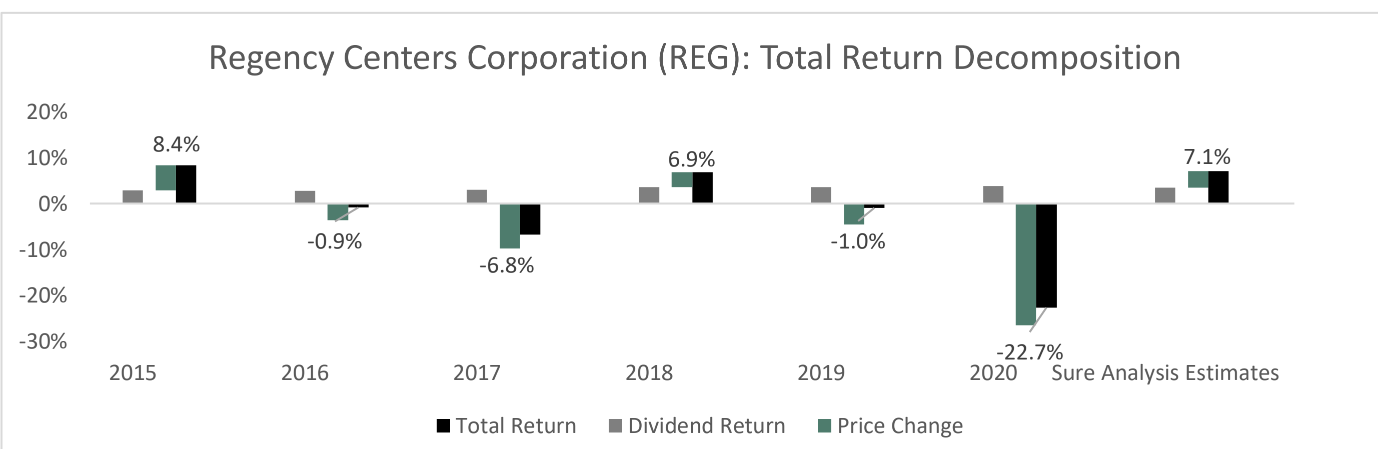
While Regency did cut its dividend back during the Great Financial Crisis, the resiliency shown during the pandemic combined with the relatively comfortable 63% payout ratio based on this year's expected FFO/share, we don't expect a dividend cut. That being said, if the trust's financials were to be under pressure again, a cut is not unlikely either. Overall, Regency enjoys some decent qualities, including a quality tenant base of blue-chip companies, with no tenant accounting for more than 3.3% of total revenues. It also maintains a strong balance sheet with a BBB+ credit rating from S&P, has $1.2 billion in liquidity, and features a net debt to EBITDA ratio of 5.00, which is rather tolerable.

Still, we can't ignore the fact the trust is currently operating in what is likely the least attractive real estate sub-sector, with issues such as missing rental collections already materializing. A prolonged recession is likely to adversely impact the trust's financials and lead to a dividend cut.

## Final Thoughts & Recommendation

Regency Centers has shown a robust track record of FFO generation, maintaining solid financials even during the ongoing pandemic despite facing significant headwinds during the past year. The recent 5% dividend increase and management's elevated guidance have further bolstered our confidence in the stock. Driven by our prudent growth rate estimates and the current dividend, we forecast annualized medium-term returns of around 7.1%. We rate shares a hold. Investors should be wary of the underlying risks involved in holding retail REITs, nonetheless.

## 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 | 470 | 474 | 489 | 538 | 570 | 614 | 984 | 1,121 | 1,133 | 1,016 |
| Gross Profit | 350 | 354 | 364 | 401 | 425 | 453 | 731 | 815 | 827 | 703 |
| Gross Margin | 74.4% | 74.8% | 74.5% | 74.6% | 74.6% | 73.7% | 74.2% | 72.7% | 73.0% | 69.2% |
| SG&A Exp. | 56 | 62 | 61 | 60 | 66 | 65 | 68 | 65 | 75 | 75 |
| D&A Exp. | 134 | 128 | 134 | 148 | 147 | 162 | 334 | 360 | 374 | 346 |
| Operating Profit | 166 | 166 | 164 | 185 | 205 | 211 | 240 | 380 | 370 | 270 |
| Operating Margin | 35.4% | 35.1% | 33.6% | 34.3% | 35.9% | 34.4% | 24.3% | 33.9% | 32.6% | 26.5% |
| Net Profit | 51 | 26 | 150 | 187 | 150 | 165 | 176 | 249 | 239 | 45 |
| Net Margin | 10.9% | 5.5% | 30.6% | 34.8% | 26.3% | 26.8% | 17.9% | 22.2% | 21.1% | 4.4% |
| Free Cash Flow | 218 | 257 | 251 | 278 | 286 | 297 | 470 | 610 | 621 | 499 |
| Income Tax | 3 | 13 | | (1) | - | - | (10) | | | |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3,987 | 3,853 | 3,914 | 4,197 | 4,183 | 4,489 | 11146 | 10945 | 11132 | 10937 |
| Cash & Equivalents | 11 | 22 | 81 | 114 | 37 | 13 | 45 | 45 | 113 | 376 |
| Accounts Receivable | 53 | 54 | 57 | 66 | 78 | 85 | 114 | 126 | 143 | 126 |
| Goodwill & Int. Ass. | 27 | 42 | 45 | 52 | 105 | 119 | 811 | 701 | 550 | 363 |
| Total Liabilities | 2,117 | 2,108 | 2,052 | 2,261 | 2,100 | 1,864 | 4,413 | 4,494 | 4,842 | 4,879 |
| Accounts Payable | 102 | 127 | 147 | 181 | 165 | 139 | 234 | 225 | 214 | 302 |
| Long-Term Debt | 1,982 | 1,942 | 1,855 | 2,021 | 1,864 | 1,642 | 3,595 | 3,715 | 3,920 | 3,923 |
| Shareholder's Equity | 1,533 | 1,406 | 1,518 | 1,582 | 1,729 | 2,266 | 6,692 | 6,398 | 6,213 | 5,985 |
| D/E Ratio | 1.10 | 1.12 | 1.01 | 1.06 | 0.91 | 0.63 | 0.54 | 0.58 | 0.63 | 0.66 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 1.3% | 0.7% | 3.9% | 4.6% | 3.6% | 3.8% | 2.3% | 2.3% | 2.2% | 0.4% |
| Return on Equity | 3.5% | 1.8% | 10.2% | 12.1% | 9.1% | 8.3% | 3.9% | 3.8% | 3.8% | 0.7% |
| ROIC | 1.3% | 0.7% | 4.0% | 4.9% | 3.8% | 4.0% | 2.4% | 2.4% | 2.4% | 0.4% |
| Shares Out. | 87.8 | 89.6 | 91.4 | 92.4 | 94.4 | 100.9 | 159.5 | 169.7 | 167.5 | 169.2 |
| Revenue/Share | 5.33 | 5.29 | 5.35 | 5.82 | 6.01 | 6.07 | 6.15 | 6.59 | 6.75 | 6.00 |
| FCF/Share | 2.47 | 2.87 | 2.74 | 3.01 | 3.01 | 2.93 | 2.94 | 3.59 | 3.70 | 2.95 |

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