Brixmor Property (BRX)

Updated February 15th, 2022 by Kay Ng

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	6.3%	**Market Cap:**	$7.4B
Fair Value Price:	$25	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	04/04/22
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	04/18/22
Dividend Yield:	3.8%	**5 Year Price Target**	$29	**Years Of Dividend Growth[1]:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	11.6%

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 364 properties. Brixmor's shopping centers are positioned in the top 50 metropolitan areas in the United States. About 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 Q4 and full-year 2021 results on 02/07/22. For Q4, it generated 10% higher in revenues to $276.9 million and reported funds from operations ("FFO") of $137.4 million, 38% higher than the prior year's quarter. On a per-share basis, FFO was $0.46, an improvement of 39% year over year. As well, it witnessed an increase in same property net operating income ("NOI") of 9.7%.

The full-year results provide a bigger picture. Year over year, revenue rose 9% to $1,064 million, FFO increased by 19% to $522 million, and FFO per share increased 19% to $1.75. Same property NOI climbed 8.9% versus 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 year, it stabilized $168.2 million of reinvestment projects at an average incremental NOI yield of 11%, acquired $259.4 million of assets, and sold $244.3 million of assets. The REIT ended the quarter with an in-process reinvestment pipeline that totaled $374.3 million at an expected average incremental NOI yield of 9%. Management provided 2022 FFO-per-share guidance of $1.86 to $1.95. We initiate our 2022 FFOPS estimate, to about the midpoint of the range, at $1.90.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFOPS	---	$1.67	$1.81	$1.97	$2.06	$2.08	$1.89	$1.91	$1.47	$1.75	***$1.90***	***$2.20***
DPS	---	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	$1.12	$0.57	$0.86	***$0.96***	***$1.11***
Shares[1]	---	230	297	298	304	305	300	298	298	299	***300***	***305***

Brixmor restored quarterly dividends totally $0.86 per share for 2021 with a sustainable payout ratio of about 49%. And continued the healthy dividend trend by increasing its quarterly dividend to $0.24 per share for its 2022 quarterly dividends. 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 2013 to 2021, 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. BRX's 2021 same-property NOI of 8.9% has been higher than normal and management expects more normalized levels of 2-4%. Brixmor's reinvestment projects can be a growth driver, but they will take time to be put into service. Further, the REIT might take it slowly to maintain the company's liquidity and financial position. We expect the cash distribution to restore to previous levels over time. It could take a couple of years for its dividend to normalize. The growth rate in 2021 is high due largely to a rebound from the pandemic impacts. Therefore, we have a more conservative five-year FFOPS growth rate estimate of 3.0% for the stock. We also project that the dividend can increase at a similar rate.

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

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	---	14.1	13.8	17.1	16.1	14.1	12.6	10.2	8.8	13.7	***13.1***	***13.0***
Avg. Yld.	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	4.4%	2.9%	***3.8%***	***3.9%***

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. Because of the high growth it's experiencing, Brixmor trades at 13.1 times FFO. We now target a fair P/FFO of 13.0 versus its eight-year average P/FFO of 13.4. The majority of Brixmor's tenants are anchored by businesses, including food and fitness, that should not be greatly impacted by online sales. This fair valuation is based on the assumption that it can show resilient and growing results after the economy normalizes from the pandemic. The stock appears to be fairly valued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

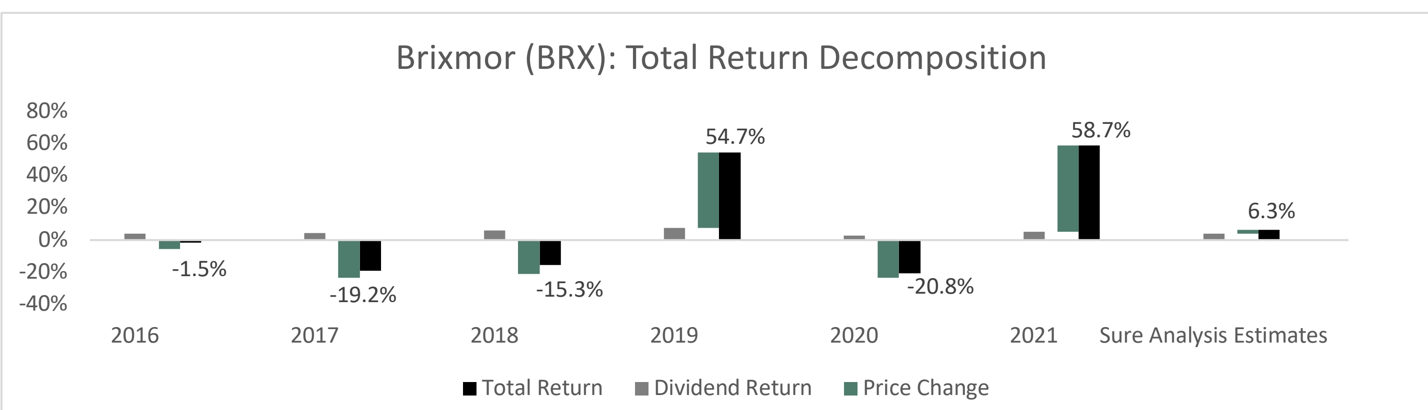
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	48%	40%	47%	49%	51%	59%	59%	39%	49%	***51%***	***51%***

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 the 2020 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 $1.5 billion at the end of 2021, and maturities of only $250 million in 2022. At the end of Q4 2021, Brixmor's debt-to-equity ratio was 2.1x, 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 declined by $5.2 million in 2021 versus 2020. 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 6.3% in the stock from a 3.8% dividend, FFO-per-share growth rate of 3.0%, and valuation contraction of 0.2%. We rate Brixmor as a "hold" at current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,088	1,146	1,237	1,266	1,276	1,283	1,234	1,168	1,053	1,152
Gross Profit	814	861	928	956	968	968	921	872	773	854
Gross Margin	74.8%	75.1%	75.0%	75.5%	75.9%	75.4%	74.6%	74.7%	73.4%	74.2%
SG&A Exp.	89	121	80	98	92	92	94	102	98	105
D&A Exp.	510	450	442	418	387	375	352	332	336	327
Operating Profit	225	291	395	430	479	495	465	438	339	422
Operating Margin	20.7%	25.4%	31.9%	33.9%	37.6%	38.6%	37.7%	37.5%	32.2%	36.6%
Net Profit	-123	-94	89	194	276	300	366	275	121	270
Net Margin	-11.3%	-8.2%	7.2%	15.3%	21.6%	23.4%	29.7%	23.5%	11.5%	23.4%
Free Cash Flow	269	332	479	524	567	552	542	529	443	552
Income Tax	1,088	1,146	1,237	1,266	1,276	1,283	1,234	1,168	1,053	1,152

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,604	10,172	9,682	9,498	9,320	9,154	8,242	8,142	8,342	8,377
Cash & Equivalents	103	114	61	70	51	57	42	19	369	297
Accounts Receivable	157	179	182	180	178	232	228	234	240	235
Total Liabilities	7,327	6,887	6,702	6,578	6,393	6,246	5,406	5,399	5,661	5,659
Long-Term Debt	6,499	5,981	6,023	5,974	5,839	5,676	4,886	4,861	5,167	5,165
Shareholder's Equity	1,721	2,342	2,904	2,870	2,923	2,908	2,836	2,744	2,681	2,718
LTD/E Ratio	3.78	2.55	2.07	2.08	2.00	1.95	1.72	1.77	1.93	1.90

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-1.2%	-0.9%	0.9%	2.0%	2.9%	3.3%	4.2%	3.4%	1.5%	3.2%
Return on Equity	-6.8%	-4.6%	3.4%	6.7%	9.5%	10.3%	12.8%	9.8%	4.5%	10.0%
ROIC	-1.4%	-1.0%	1.0%	2.2%	3.1%	3.5%	4.5%	3.6%	1.6%	3.4%
Shares Out.	---	230	297	298	304	305	300	298	298	299
Revenue/Share	4.87	6.07	5.06	4.15	4.18	4.20	4.08	3.90	3.54	3.86
FCF/Share	1.20	1.76	1.96	1.72	1.86	1.81	1.79	1.77	1.49	1.85

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