



Brandywine Real Estate (BDN)

Updated April 26th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	11.1%	Market Cap:	\$2.3 B
Fair Value Price:	\$15	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	7/5/2022 ¹
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	7/20/2022
Dividend Yield:	5.8%	5 Year Price Target	\$18	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Brandywine Realty Trust (BDN) is a real estate investment trust (REIT) that owns, develops, leases and manages an urban, town center and transit-oriented portfolio which includes 168 properties in Philadelphia, Austin and Washington, D.C. The REIT has a market capitalization of \$2.3 billion and generates 74% of its operating income in Philadelphia, 22% of its operating income in Austin and the remaining 4% in Washington, D.C.

As Brandywine Realty Trust generates the vast portion of its operating income in Philadelphia and Austin, it is worth noting the advantages of these two areas. According to official reports, Philadelphia has the highest growth rate of highly educated citizens since 2008 while Austin is the fastest-growing metropolitan area, the best place to start business and it has retrieved all the jobs lost due to the pandemic.

In mid-April, Brandywine Realty Trust reported (4/20/22) financial results for the first quarter of fiscal 2022. The REIT continued to stabilize its business performance, though its occupancy slipped from 91.3% in the previous quarter to 89.4%. Funds from operations (FFO) per share remained flat vs. the prior year's quarter, at \$0.35, just \$0.01 above the analysts' consensus. Management reiterated its lackluster guidance for this year, expecting occupancy of 91%-93% at the end of the year and FFO per share of \$1.37-\$1.45. We remain concerned over the low tenant retention rate of the trust, which is expected within 58%-60% this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$1.19	\$1.36	\$1.37	\$1.47	\$0.95	\$1.30	\$1.38	\$1.43	\$1.40	\$1.37	\$1.41	\$1.63
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.63	\$0.66	\$0.73	\$0.76	\$0.76	\$0.76	\$0.76	\$0.88
Shares²	143.3	154.4	166.2	178.2	176.0	176.8	179.6	176.7	172.3	172.9	173.5	200.0

Brandywine Realty Trust operates primarily in Philadelphia and Austin, which have some attractive characteristics. 80% of all U.S. pharmaceutical companies have offices in Philadelphia, with no other county producing as many degrees in biomedical engineering. Moreover, Austin is the fastest-growing metropolitan area in the U.S., with Oracle and Tesla recently moving their headquarters to Austin. Up to 50 companies may move to Austin to service Tesla and its supply chain vendors. Overall, the outlook is bright for those who operate commercial properties in the area. On the other hand, Brandywine Realty Trust has grown its FFO per share by only 1.6% per year on average over the last decade, with a volatile performance record in place. As a result, we find it prudent to be conservative in our growth assumptions and assume that the REIT will grow its FFO per share at a 3.0% average annual rate over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	9.7	10.1	10.9	9.7	15.7	13.2	11.5	10.5	8.2	9.8	9.2	10.9
Avg. Yld.	5.2%	4.4%	4.0%	4.2%	4.2%	3.9%	4.6%	5.1%	6.6%	5.7%	5.8%	4.9%

¹ Estimated date.

² In millions.

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Brandywine Realty Trust is currently trading at a price-to-FFO ratio of 9.2, which is lower than the 10-year average FFO multiple of 10.9. If the stock trades at its average valuation level in five years, it will enjoy a 3.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

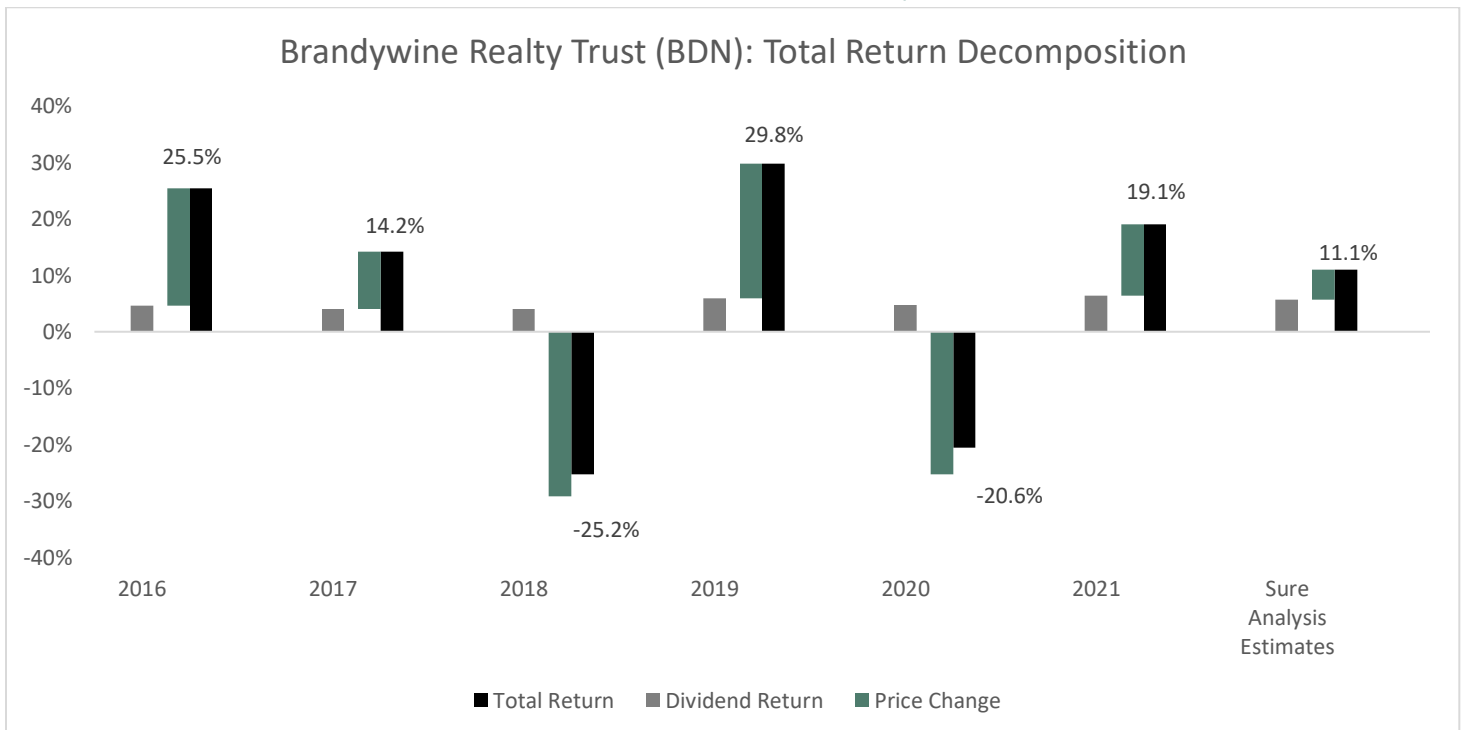
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	50%	44%	44%	41%	66%	51%	53%	53%	54%	55%	54%	54%

Brandywine Realty Trust is offering an above-average 5.8% dividend yield. Given the solid payout ratio of 54%, the dividend looks enticing on the surface. However, it is important to note that the REIT operates with a nosebleed leverage ratio (Net Debt to EBITDA) of 7.0. It also has a heavy schedule of debt maturities until the end of 2024. As a result, the dividend is likely to come under pressure in the event of an unforeseen downturn. The high debt load is probably the primary reason behind the freeze of the dividend for 14 consecutive quarters. Moreover, Brandywine Realty Trust is sensitive to recessions due to its weak balance sheet and the sensitivity of its tenants to recessions. While the REIT has performed decently during the pandemic, with just a -4% decline in FFO per share between 2019 and 2021, we believe that the REIT is not suitable for risk-averse income-oriented investors.

Final Thoughts & Recommendation

Brandywine Realty Trust operates in the highly attractive markets of Philadelphia and Austin but it has exhibited choppy performance over the last decade. As a result, during the last five years, the stock has dramatically underperformed the S&P 500 (-27% vs. +80%). We consider a consistent growth record as paramount and hence we are concerned over the unreliable performance of Brandywine Realty Trust. We expect the stock to offer an 11.1% average annual return over the next five years thanks to 3.0% annual growth of FFO per share, a 5.8% dividend and a 3.4% annualized expansion of its valuation level. We rate the stock as a buy but we note its high debt load and its risk during downturns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	536	562	597	603	525	520	544	580	535	487
Gross Profit	325	340	361	365	316	314	326	355	329	299
Gross Margin	60.6%	60.6%	60.5%	60.5%	60.1%	60.4%	59.9%	61.1%	61.6%	61.3%
SG&A Exp.	25	28	27	29	27	29	28	32	30	30
D&A Exp.	199	199	209	219	190	180	176	210	188	---
Operating Profit	111	116	126	116	100	106	122	112	111	90
Operating Margin	20.7%	20.6%	21.1%	19.3%	19.0%	20.3%	22.5%	19.4%	20.7%	18.5%
Net Profit	7	43	7	(30)	40	120	135	34	306	12
Net Margin	1.2%	7.6%	1.2%	-5.0%	7.6%	23.1%	24.7%	5.9%	57.1%	2.5%
Free Cash Flow	60	62	(48)	(129)	(81)	20	15	36	66	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,507	4,765	4,835	4,555	4,099	3,995	4,077	4,076	3,900	3,846
Cash & Equivalents	2	263	258	57	194	202	23	90	46	27
Accounts Receivable	13	17	19	17	12	18	16	16	14	12
Goodwill & Int. Ass.	71	132	99	112	72	65	171	124	88	56
Total Liabilities	2,733	2,844	2,676	2,602	2,216	2,149	2,266	2,388	2,095	2,145
Accounts Payable	72	84	96	100	103	107	126	113	122	150
Long-Term Debt	2,465	2,595	2,427	2,385	2,013	1,931	2,028	2,144	1,831	1,854
Shareholder's Equity	1,752	1,900	2,141	1,934	1,866	1,829	1,799	1,678	1,794	1,690
LTD/E Ratio	1.41	1.37	1.13	1.23	1.08	1.06	1.13	1.28	1.02	1.10

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.1%	0.9%	0.1%	-0.6%	0.9%	3.0%	3.3%	0.8%	7.7%	0.3%
Return on Equity	0.4%	2.3%	0.3%	-1.5%	2.1%	6.5%	7.4%	2.0%	17.6%	0.7%
ROIC	0.2%	1.0%	0.2%	-0.7%	1.0%	3.1%	3.5%	0.9%	8.2%	0.3%
Shares Out.	143.3	154.4	166.2	178.2	176.0	176.8	179.6	176.7	172.3	172.9
Revenue/Share	3.74	3.64	3.59	3.38	2.99	2.94	3.03	3.29	3.10	2.83
FCF/Share	0.42	0.40	(0.29)	(0.72)	(0.46)	0.12	0.08	0.20	0.38	---

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

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