



# Federal Realty Investment Trust (FRT)

Updated May 8<sup>th</sup>, 2022 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$115	<b>5 Year CAGR Estimate:</b>	3.6%	<b>Market Cap:</b>	\$9.3B
<b>Fair Value Price:</b>	\$89	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	06/21/22
<b>% Fair Value:</b>	130%	<b>5 Year Valuation Multiple Estimate:</b>	-5.0%	<b>Dividend Payment Date:</b>	07/15/22
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$114	<b>Years Of Dividend Growth:</b>	54
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## 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 \$9.3 billion today.

Federal Realty reported Q1 earnings on 05/05/22. FFO per share came in at \$1.50, up from \$1.17 in the year-ago quarter. Total revenue increased 17.7% to \$256.77M year-over-year. Net income available for common shareholders stood at \$0.63, up from \$0.60 in the year-ago period.

During the quarter, Federal Realty continued record levels of leasing with 119 signed leases for 444,398 square feet of comparable space. The trust's portfolio, during the quarter, was 91.2% occupied and 93.7% leased, up by 170 basis points and 190 basis points, respectively, year-over-year. That said, the trust maintained a 250 basis points spread between occupied and leased. Moreover, small shop leased rate was 88.7%, up by 130 basis points quarter-over-quarter. Federal Realty also reported Q1 comparable property operating income growth of 14.5%.

Meanwhile, the company raised its 2022 earnings per share guidance to \$2.36-\$2.56 from \$2.30-\$2.50 and FFO per diluted share guidance to \$5.85-\$6.05 from \$5.75-\$5.95.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>FFO</b>	\$4.31	\$4.61	\$4.94	\$5.32	\$5.65	\$5.91	\$6.23	\$6.33	\$4.52	\$5.57	<b>\$5.92</b>	<b>\$7.57</b>
<b>DPS</b>	\$2.84	\$3.02	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.22	\$4.26	<b>\$4.28</b>	<b>\$5.00</b>
<b>Shares<sup>1</sup></b>	64.9	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	<b>79.4</b>	<b>85</b>

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.

<sup>1</sup> Share count in millions

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Moving forward, we expect FFO/share to grow at a strong 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	23.6	24.3	27.8	27.2	27.0	22.9	19.6	20.7	16.2	24.6	19.4	15.0
Avg. Yld.	2.8%	2.8%	2.5%	2.6%	2.5%	3.0%	3.3%	3.2%	5.8%	3.3%	3.7%	4.4%

Federal Realty's valuation now stands at 19.4 times our 2022 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	66%	68%	69%	72%	68%	69%	65%	66%	93%	82%	72%	66%

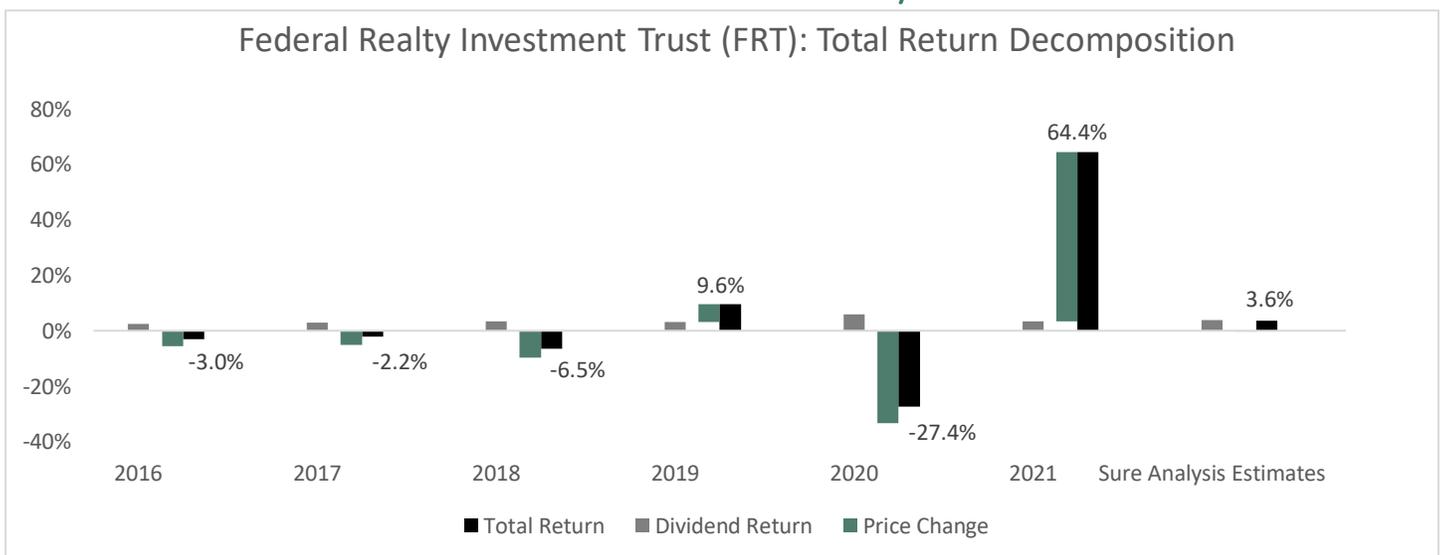
This year's payout ratio is much higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not 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 3.6% 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 Hold given that its growth pipeline and somewhat attractive dividend are largely offset by expected multiple contraction in the years to come.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	606	637	686	744	802	857	915	936	835	951
<b>Gross Profit</b>	427	447	474	511	548	585	628	637	545	635
<b>Gross Margin</b>	70.4%	70.1%	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%	65.3%	66.7%
<b>SG&amp;A Exp.</b>	31	32	32	36	33	36	34	43	42	50
<b>D&amp;A Exp.</b>	142	161	171	175	194	216	244	240	255	280
<b>Operating Profit</b>	254	254	271	300	321	332	350	355	249	305
<b>Operating Margin</b>	41.9%	39.9%	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%	29.8%	32.0%
<b>Net Profit</b>	152	163	165	210	250	290	242	354	132	261
<b>Net Margin</b>	25.1%	25.5%	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%	15.8%	27.5%
<b>Free Cash Flow</b>	116	24	(15)	87	(10)	(60)	148	52	(132)	31

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	3,899	4,219	4,547	4,897	5,423	6,276	6,290	6,795	7,608	7,622
<b>Cash &amp; Equivalents</b>	37	89	48	21	23	15	64	127	798	162
<b>Accounts Receivable</b>	74	85	93	110	117	210	142	153	160	169
<b>Total Liabilities</b>	2,588	2,748	2,854	3,115	3,347	3,884	3,822	4,159	5,059	4,959
<b>Accounts Payable</b>	121	156	146	147	202	196	178	256	229	235
<b>Long-Term Debt</b>	2,137	2,250	2,338	2,556	2,727	3,213	3,158	3,357	4,291	4,048
<b>Shareholder's Equity</b>	1,277	1,438	1,594	1,654	1,967	2,107	2,186	2,375	2,304	2,421
<b>LTD/E Ratio</b>	1.66	1.55	1.46	1.54	1.38	1.42	1.35	1.32	1.74	1.57

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	4.0%	4.0%	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%	1.8%	3.4%
<b>Return on Equity</b>	12.2%	12.0%	10.9%	12.9%	13.8%	14.2%	11.3%	15.5%	5.6%	11.1%
<b>ROIC</b>	4.5%	4.5%	4.2%	5.0%	5.5%	5.6%	4.3%	6.1%	2.1%	3.9%
<b>Shares Out.</b>	64.9	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6
<b>Revenue/Share</b>	9.46	9.73	10.17	10.79	11.28	11.87	12.49	12.52	11.06	12.29
<b>FCF/Share</b>	1.81	0.37	(0.22)	1.25	(0.14)	(0.83)	2.02	0.70	(1.75)	0.40

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

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