Brixmor Property (BRX)

Updated August 8th, 2022 by Kay Ng

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$6.8B
Fair Value Price:	$25	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	10/03/22
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Dividend Payment Date:**	10/17/22
Dividend Yield:	4.2%	**5 Year Price Target**	$29	**Years Of Dividend Growth[1]:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 382 shopping centers. Its retail properties are positioned in the top 50 metropolitan areas in the United States. It is one of the largest open-air retail landlords domestically. 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 annualized based rent ("ABR").

Brixmor reported its Q2 2022 results on 08/01/22. For the quarter, it generated 6.7% higher in revenues to $306.1 million, including rental income that increased 6.6% to $305.9 million. It also reported funds from operations ("FFO") of $148.9 million, 7.4% higher than the prior year's quarter. On a per-share basis, FFO was $0.49, an improvement of 6.5% year over year. As well, it witnessed an increase in same property net operating income ("NOI") of 6.7%. 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 quarter, it stabilized $39.0 million of reinvestment projects at an average incremental NOI yield of 11%, acquired $251.1 million of assets, and sold $84.5 million of assets. The REIT ended the quarter with an in-process reinvestment pipeline that totaled $398.2 million at an expected average incremental NOI yield of 9%.

The year-to-date results provide a bigger picture. Revenue jumped 6.7% to $604.8 million, including rental income that increased 7.3% to $604.3 million. FFO was up 9.3% to $294.3 million. FFO per share rose 8.9% to $0.98. As management, expects higher same property NOI growth to 5.5%-6.0%, it improved its 2022 FFO-per-share guidance to $1.93 to $1.97. Consequently, we also update our 2022 FFOPS estimate, to about the midpoint of the range, at $1.95.

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	***$1.95***	***$2.26***
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	***302***	***307***

Brixmor restored quarterly dividends totalling $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 3.0% dividend growth rate through 2027. 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 has the potential to reset to prices that are closer to the market rate. BRX's 2021 same-property NOI of 8.9% has been higher than normal and management expects 2022's levels to be lower at 5.5%-6.0%. Brixmor's reinvestment projects can be a growth driver, but they take time to be put into service. Further, the REIT might take it slowly to maintain the company's liquidity and financial position. Brixmor was rewarded with a Fitch credit rating upgrade from 'BBB-' to 'BBB' in Q2 2022. We expect the cash distribution to restore to previous levels over time. It could take a few years for its dividend to normalize. The FFO growth this year should surpass the 2019 levels. For now, we maintain a five-year FFOPS growth rate of 3.0% for the

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

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stock. We also project that the dividend can increase at a similar rate. We will improve its FFO and dividend estimates if the REIT executes well over time.

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	***11.6***	***13.0***
Avg. Yld.	---	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	4.4%	2.9%	***4.2%***	***3.8%***

Much of the growth that 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. Brixmor trades at a multiple of 11.6, which is slightly undervalued from our target of a fair P/FFO of 13.0, which is fitting versus its 8-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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

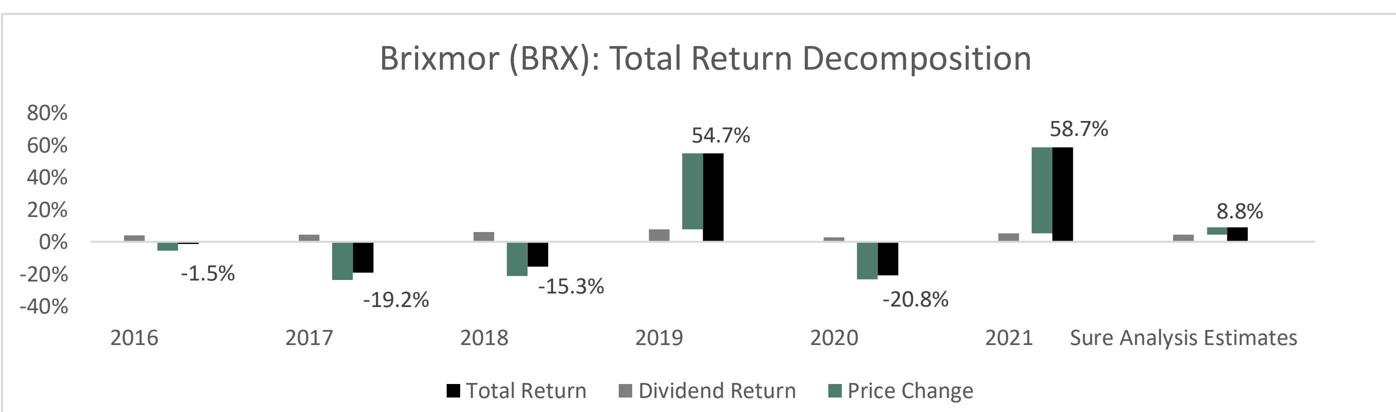
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	48%	40%	47%	49%	51%	59%	59%	39%	49%	***49%***	***49%***

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 has survived partly because it has ~70% of properties that have grocery anchors. At the end of Q2 2022, Brixmor had total liquidity of $1.2 billion, no debt maturities until June 2024. Its debt-to-equity ratio was 2.0x, while its debt-to-asset ratio was 67%. The company also received credit rating outlook improvements. Fitch upgraded its credit rating to BBB. It also has an investment-grade credit rating of BBB- from S&P Global.

Final Thoughts & Recommendation

Brixmor appears to have more or less stabilized from the pandemic impacts. Over the next five years, we estimate total returns of 8.8% in the stock from a 4.2% dividend, FFO-per-share growth rate of 3.0%, and valuation expansion of 2.3%. 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.

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