



Federal Realty Investment Trust (FRT)

Updated August 13th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$112	5 Year CAGR Estimate:	4.1%	Market Cap:	\$8.9B
Fair Value Price:	\$91	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	09/21/22
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date:	10/17/22
Dividend Yield:	3.9%	5 Year Price Target	\$114	Years Of Dividend Growth:	55
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	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 \$8.9 billion today.

Federal Realty reported Q2 earnings on 08/04/22. FFO per share came in at \$1.65, up from \$1.41 in the year-ago quarter. Total revenue increased 14.0% to \$264.1M year-over-year. Net income available for common shareholders stood at \$0.75, up from \$0.57 in the year-ago period.

During the quarter, Federal Realty continued record levels of leasing with 132 signed leases for 562,111 square feet of comparable space. The trust's portfolio, during the quarter, was 92.0% occupied and 94.1% leased, up by 240 basis points and 140 basis points, respectively, year-over-year. That said, the trust maintained a 210 basis points spread between occupied and leased. Moreover, small shop leased rate was 89.3%, up by 360 basis points year-over-year. Federal Realty also reported Q2 comparable property operating income growth of 8.2%.

Meanwhile, the company raised its 2022 earnings per share guidance to \$2.50-\$2.65 from \$2.36-\$2.56 and FFO per diluted share guidance to \$6.10-\$6.25 from \$5.85-\$6.05. The company also expects comparable property income growth to be in the range of 5.5% to 7.0%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$4.31	\$4.61	\$4.94	\$5.32	\$5.65	\$5.91	\$6.23	\$6.33	\$4.52	\$5.57	\$6.08	\$7.57
DPS	\$2.84	\$3.02	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.22	\$4.26	\$4.32	\$5.00
Shares¹	64.9	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	80.9	85

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.

¹ Share count in millions

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Moving forward, we expect FFO/share to grow at a mid-single digit pace. We also expect Federal Realty to continue increasing its streak of 55 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	18.4	15.0
Avg. Yld.	2.8%	2.8%	2.5%	2.6%	2.5%	3.0%	3.3%	3.2%	5.8%	3.3%	3.9%	4.4%

Federal Realty's valuation now stands at 18.4 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 valuation 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%	71%	66%

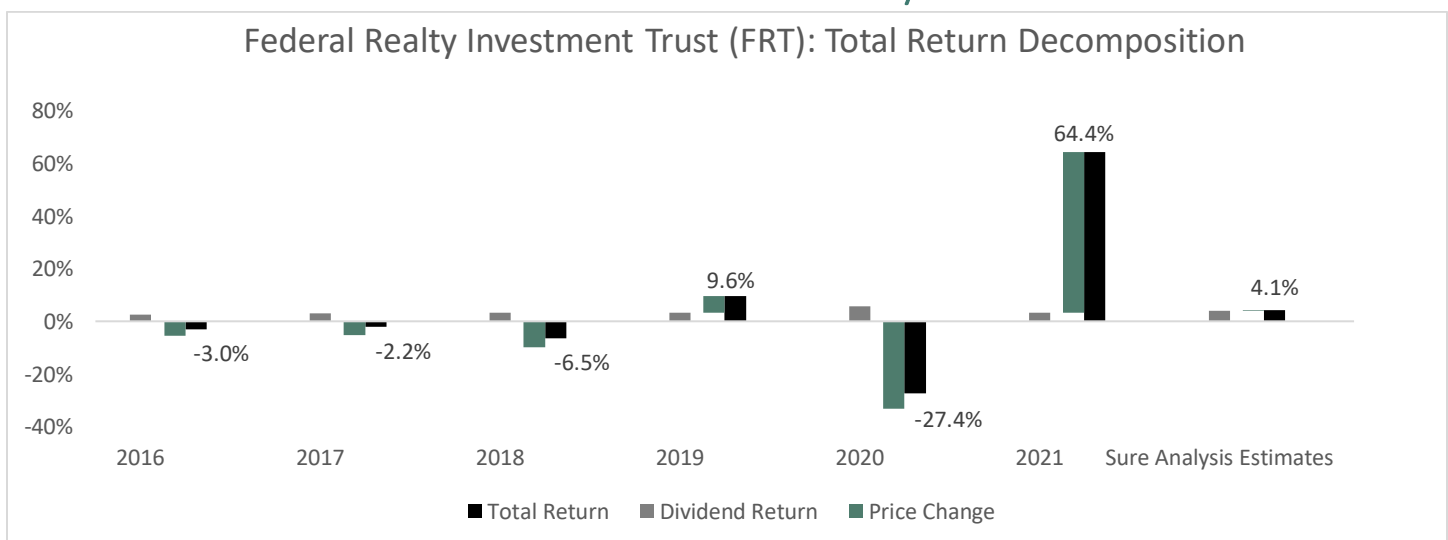
This year's payout ratio is higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see 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 4.1% 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
Revenue	606	637	686	744	802	857	915	936	835	951
Gross Profit	427	447	474	511	548	585	628	637	545	635
Gross Margin	70.4%	70.1%	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%	65.3%	66.7%
SG&A Exp.	31	32	32	36	33	36	34	43	42	50
D&A Exp.	142	161	171	175	194	216	244	240	255	280
Operating Profit	254	254	271	300	321	332	350	355	249	305
Operating Margin	41.9%	39.9%	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%	29.8%	32.0%
Net Profit	152	163	165	210	250	290	242	354	132	261
Net Margin	25.1%	25.5%	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%	15.8%	27.5%
Free Cash Flow	116	24	(15)	87	(10)	(60)	148	52	(132)	31

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,899	4,219	4,547	4,897	5,423	6,276	6,290	6,795	7,608	7,622
Cash & Equivalents	37	89	48	21	23	15	64	127	798	162
Accounts Receivable	74	85	93	110	117	210	142	153	160	169
Total Liabilities	2,588	2,748	2,854	3,115	3,347	3,884	3,822	4,159	5,059	4,959
Accounts Payable	121	156	146	147	202	196	178	256	229	235
Long-Term Debt	2,137	2,250	2,338	2,556	2,727	3,213	3,158	3,357	4,291	4,048
Shareholder's Equity	1,277	1,438	1,594	1,654	1,967	2,107	2,186	2,375	2,304	2,421
LTD/E Ratio	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
Return on Assets	4.0%	4.0%	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%	1.8%	3.4%
Return on Equity	12.2%	12.0%	10.9%	12.9%	13.8%	14.2%	11.3%	15.5%	5.6%	11.1%
ROIC	4.5%	4.5%	4.2%	5.0%	5.5%	5.6%	4.3%	6.1%	2.1%	3.9%
Shares Out.	64.9	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6
Revenue/Share	9.46	9.73	10.17	10.79	11.28	11.87	12.49	12.52	11.06	12.29
FCF/Share	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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