Kite Realty Group Trust (KRG)

Updated August 3rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	10.9%	**Market Cap:**	$4.2 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	09/30/2022
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.7%	**Dividend Payment Date[1]:**	10/10/2022
Dividend Yield:	4.2%	**5 Year Price Target:**	$28	**Years of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Kite Realty Group Trust is a full-service, vertically integrated real estate investment trust that owns mainly open-air community shopping centers across the United States. The trust has a diverse portfolio of community, neighborhood, and lifestyle centers. Kite Realty Group trades on the NYSE under the ticker symbol KRG and is headquartered Indianapolis, Indiana. The Trust has a market capitalization of $4.2 billion. Kite Realty Group Trust owns 181 operating retail properties comprising 28.8 million square feet.

Kite Realty Group released second quarter 2022 results on August 2nd. The trust reported AFFO of $108 million, or $0.49 per diluted common share. KRG's same-property net operating income (NOI) rose 3.8%.

During the quarter, the trust executed on 206 new and renewal leases, totaling 1.2 million square feet. Annualized base rent (ABR) per square foot for the retail portfolio rose 6.4% year-over-year, to $19.66. KRG has leased 93.8% of the portfolio at the end of the quarter. The economic occupancy percentage of 91.2% compares favorably to the prior year quarter's 90.1%. KRG's net-debt-to-Adjusted EBITDA was 5.3x at quarter end, a sequential improvement over 5.7x at first quarter end.

Leadership updated 2022 guidance again and now sees adjusted FFO coming in between $1.80 to $1.86 (up from $1.74 and $1.80) per share for the full year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	$0.43	$1.49	$1.77	$1.99	$2.06	$2.04	$2.00	$1.66	$1.29	$1.50	***$1.83***	***$2.34***
DPS	$0.96	$0.96	$1.02	$1.08	$1.14	$1.21	$1.27	$1.14	$0.45	$0.68	***$0.80***	***$0.84***
Shares[2]	16.7	23.5	58.4	83.5	83.5	83.7	83.7	83.9	84.1	110.6	***219.0***	***250.0***

Kite Realty has generated a strong long-term adjusted funds from operations growth, but the five year AFFO per share growth has been muted due to the impact of the COVID-19 pandemic on 2020 and 2021 results. Over the last nine and five years, KRG has generated AFFO growth of 15% and -6% annually, respectively. We estimate that KRG can produce 5.0% annual AFFO per share growth in the intermediate term.

Kite Realty will grow by expanding their number of retail properties, the number of states and markets they operate in, and by boosting their properties' annualized base rent per square foot. The Trust will use available cash flow, targeted asset recycling, equity, and debt capital to opportunistically acquire more retail properties and redevelop existing properties with high investment returns. The trust will grow revenue from operating properties by leasing and re-leasing to strong and diverse retail tenants at increasing rental rates. The trust may also pursue strategic joint ventures. The merger between Retail Properties of America Inc. has seen the size and breadth of the Trust grow massively. It also increased KRG's geographic footprint in high-growth markets, and enhanced growth opportunities through strong active development projects.

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[1] Estimate

[2] In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	47.6	16.7	14.3	13.4	13.0	10.0	8.0	9.8	9.7	13.5	***10.5***	***12.0***
Avg. Yld.	4.7%	3.9%	3.9%	4.0%	4.2%	5.8%	7.8%	7.9%	9.1%	2.9%	***4.2%***	***3.0%***

The current P/AFFO of 10.5 is in the low range of the ten- and five-year average valuations of 15.6 and 10.2 times AFFO. Given the pandemic has caused difficulties in the retail brick and mortar space, and the five-year average valuation is on a down-trend, we peg KRG's fair valuation at 12.0 times AFFO. As a result, we estimate valuation gains of 2.7% annually.

Safety, Quality, Competitive Advantage, & Recession Resiliency

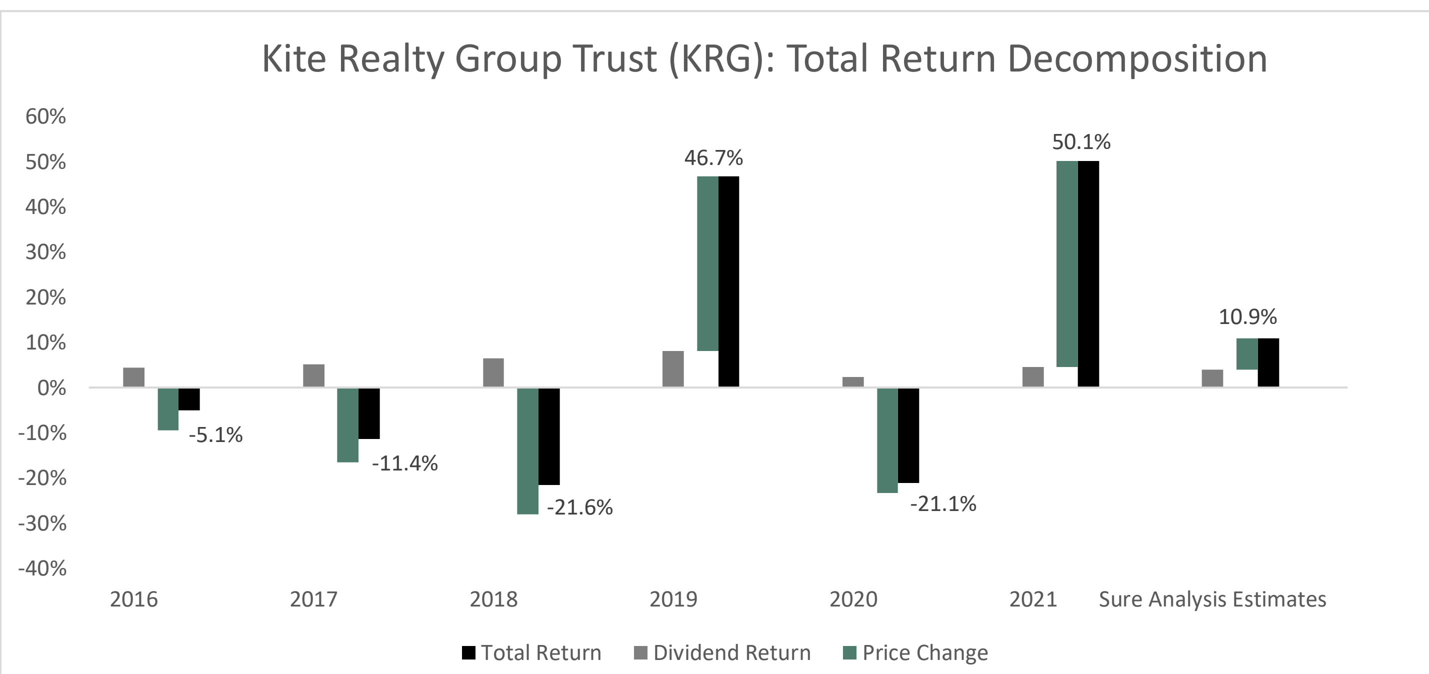
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	223%	64%	58%	54%	55%	59%	64%	69%	35%	45%	***44%***	***36%***

Kite Realty Group slashed the dividend in 2019 after a series of increases, and then further slashed it amidst the COVID pandemic in 2020. As a result, in the most recent years, the payout ratio was fairly covered, but investors cannot count on KRG for consecutively increasing dividends. During the great recession, Kite Realty Group suffered massively as did most real estate related companies. The great recession saw KRG's peak dividend of $3.28 in 2008 fall more than 66% to $0.96 in 2010. The trust does not possess any strong competitive advantage, but it's open air centers have held up slightly better than crowded malls given the nature of the pandemic.

Final Thoughts & Recommendation

Kite Realty Group has completed the merger with Retail Properties of America which has seen the scale of the company expand. The pandemic has caused AFFO to drop off, and it is still recovering. We believe the Trust can compound AFFO per share at 5.0% annually in the intermediate term. Combined with the 4.2% dividend yield and valuation gains of 2.7%, we estimate annualized total returns of 10.9%. Shares trades 13% below our fair value estimate, and given strong total returns, we rate shares as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	97	129	260	347	354	359	354	315	267	373
Gross Profit	67	92	191	256	263	266	261	231	190	268
Gross Margin	69.3%	71.4%	73.5%	73.8%	74.4%	74.1%	73.8%	73.2%	71.2%	71.8%
SG&A Exp.	7	8	41	20	23	22	21	28	31	34
D&A Exp.	44	58	124	171	179	175	156	135	131	
Operating Profit	21	30	29	73	65	72	88	71	30	34
Op. Margin	21.7%	23.0%	11.3%	21.1%	18.5%	20.1%	24.8%	22.4%	11.4%	9.1%
Net Profit	-4	-3	-6	27	1	12	-47	-1	-16	-81
Net Margin	-4.5%	-2.2%	-2.2%	7.8%	0.3%	3.3%	-13.1%	-0.2%	-6.1%	-21.6%
Free Cash Flow	-91	-60	-52	77	61	82	95	85	57	
Provision For Tax	0	0	0	0	1	0	0	0	-1	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,289	1,764	3,874	3,756	3,656	3,512	3,172	2,649	2,609	7,605
Cash & Equivalents	12	18	44	34	20	24	35	31	44	93
Accts. Receivable	21	29	48	51	53	58	58	55	57	68
Goodwill & Int.	-11	3	106	95	65	44	26	11	6	
Total Liabilities	812	1,007	1,972	2,030	2,012	1,946	1,759	1,359	1,377	3,678
Accounts Payable	54	61	75	81	81	78	86	72	79	
Long-Term Debt	700	857	1,554	1,724	1,731	1,699	1,543	1,147	1,171	3,151
Total Equity	371	651	1,796	1,726	1,644	1,565	1,413	1,289	1,231	3,922
LTD/E Ratio	1.48	1.14	0.82	1.00	1.05	1.09	1.09	0.89	0.95	0.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-0.3%	-0.2%	-0.2%	0.7%	0.0%	0.3%	-1.4%	0.0%	-0.6%	-1.6%
Return on Equity	-1.2%	-0.6%	-0.5%	1.5%	0.1%	0.7%	-3.1%	0.0%	-1.3%	-3.1%
ROIC	-0.4%	-0.2%	-0.2%	0.8%	0.0%	0.4%	-1.5%	0.0%	-0.7%	-1.7%
Shares Out.	16.7	23.5	58.4	83.5	83.5	83.7	83.7	83.9	84.1	110.6
Revenue/Share	5.77	5.50	4.45	4.15	4.24	4.29	4.23	3.76	3.17	3.37
FCF/Share	-5.44	-2.56	-0.89	0.92	0.73	0.98	1.14	1.01	0.68	

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

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