



Phillips Edison & Company, Inc. (PECO)

Updated August 7th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	2.9%	Market Cap:	\$4.34 B
Fair Value Price:	\$28	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/12/2022
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	09/01/2022
Dividend Yield:	3.3%	5 Year Price Target	\$32	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Phillips Edison & Company, Inc. is a real estate investment trust that is one of the nation's largest owners and operators of omni-channel grocery-anchored shopping centers. Additionally, the company runs a third-party investment management business providing property management and advisory services to unconsolidated joint ventures and one private fund. As of June 30th, 2022, the company's portfolio consisted of 289 properties, including 269 wholly-owned shopping centers, totaling approximately 33.1 million square feet, spread across 31 states. Phillips Edison & Company generates just over \$500 million in annual revenues, pays dividends on a monthly basis, and is based in Cincinnati, Ohio.

On August 4th, 2022, Phillips Edison & Company reported its Q2 results for the period ending June 30th, 2022. Total revenues came in at \$142.5 million, 7.1% higher year-over-year. This was due to a higher same-store NOI, which improved 4.3% to \$89.7 million, combined new and renewal leasing spreads of 20.1%, and record occupancy of 96.8% at the end of the quarter. For context, leased occupancy stood at 96.2% in the previous quarter. Combined with lower interest expenses and marginally higher operating expenses, Nareit FFO for the quarter rose 18.7% to \$71.1 million. That said, Nareit FFO per share declined by one cent to \$0.55 compared to the prior-year period. This was due to a higher share account amid share issuances utilized towards the company's asset base expansion over the past year. During the quarter, the company acquired one grocery-anchored shopping center for \$68.9 million.

Following better-than-expected Q2 results, the company updated its full-year guidance mainly to reflect its accelerated same-center NOI growth due to favorable leasing activity. The company now expects FFO per share to land between \$2.09 and \$2.15, up from \$2.07 to \$2.13 previously. We have employed the midpoint of this range in our estimates. Subsequent to the quarter end, the company established a \$250 million share buyback program, likely to stabilize its share count against any upcoming share issuances.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/shr	---	\$0.55	\$0.95	\$1.85	\$1.77	\$1.28	\$1.94	\$1.99	\$1.99	\$1.81	\$2.12	\$2.46
DPS	\$1.95	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$0.59	\$1.04	\$1.08	\$1.38
Shares¹	2.2	23.4	59.8	62.1	62.2	65.5	80.5	109.0	111.2	116.7	129.1	145.0

Phillips Edison's FFO/share generation has been rather robust over the years, despite the company operating in a rather unfavorable real estate sub-sector. By creating Omni-channel grocery-anchored shopping experiences, the company's properties enjoy resilient traffic. Future growth is to be powered by accretive acquisitions, high retention rates, and a focus on increasing occupancy. Driving leasing spreads higher, executing redevelopment projects, and implementing rent hikes in new leases should also lead to NOI growth, which should, in turn, lead to increased FFOs. In 2020, same-store NOI declined 4.1% in the midst of the pandemic, followed by a rise of 8.2% in 2021 amid NOI normalizing. Under normal circumstances, we expect same-store NOI growth of close to 3%. For context, in 2017, 2018, and 2019, the metric rose by 3.5%, 3.7%, and 3.7%, respectively. Overall, based on the company's historical leasing margins, same-store NOI growth, and portfolio composition, we forecast FFO/share growth of 3% through 2027.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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In terms of its dividend, Phillips Edison slashed it during the pandemic, despite producing relatively robust results, as payouts were barely covered. Note that the company was not public at the time. The dividend was hiked last July by 5.9% to a monthly rate of \$0.09. Due to adequate room for growth following the slash, we forecast a DPS CAGR of 5% in the medium-term.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/FFO	---	---	---	---	---	---	---	---	---	16.5	15.6	13.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	3.4%	3.3%	4.3%

While the stock's trading history in the public markets is short, shares have attracted a notable premium relative to its retail real estate industry. This is likely attributable to the company's properties being anchored to grocery stores, resulting in more resilient results, as well as dividends being paid monthly, which income-oriented investors generally appreciate. That said, we find Phillips Edison somewhat overvalued. We believe that a multiple close to 13 better reflects the company's prospects. A higher dividend yield following a multiple compression would better match the stock's risk profile as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

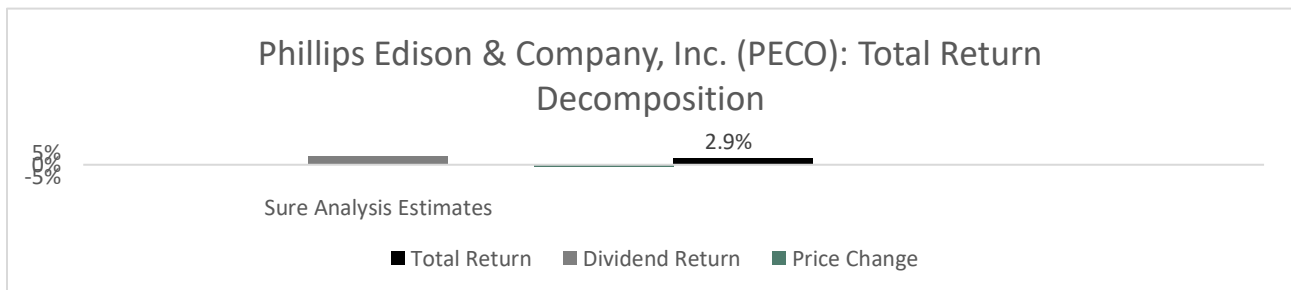
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	365%	212%	109%	114%	157%	104%	101%	30%	57%	51%	56%

Phillips Edison's dividend should be relatively safe at its current levels, following a healthy payout ratio. The company features several qualities as well, including the ability to retain excellent occupancy rates due to a necessity-based property portfolio, modest rent growth prospects, and noteworthy cash flow diversification. Further, the company's outstanding debt has a weighted average interest rate of 3.2% and a weighted average maturity of 4.9 years, while 86.9% of the total debt was fixed rate debt. That said, we believe that overall growth in the retail real estate space should be rather limited. Additionally, while the company's metrics should remain relatively robust compared to its average peer amid its tenants focusing on necessity-based goods and services, it's still vulnerable to a recession.

Final Thoughts & Recommendation

Phillips Edison & Company is a rather noteworthy retail real estate REIT with a number of qualities. However, we believe that any returns that could be yielded by growth in FFOs and the dividend could be offset by valuation headwinds and share issuances. Our annualized total return potential comes out at just 2.9% in the medium-term. The frequency of payouts is attractive, but we would require a higher yield based on the company's overall investment case. While we may reassess this view as the company matures in the public markets, we currently rate the stock a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue		73	188	242	258	312	430	537	498	533
Gross Profit		52	130	168	179	214	298	376	344	375
Gross Margin		70.5%	69.1%	69.6%	69.5%	68.8%	69.2%	70.0%	69.0%	70.3%
SG&A Exp.		4	9	16	38	37	50	49	41	49
D&A Exp.		29	77	98	103	130	191	237	225	221
Operating Profit		17	42	51	36	47	56	90	77	104
Operating Margin		22.9%	22.4%	21.1%	13.8%	15.0%	13.0%	16.8%	15.6%	19.6%
Net Profit		(12)	(23)	13	9	(38)	39	(64)	5	15
Net Margin		-17.0%	-12.0%	5.5%	3.5%	-12.3%	9.1%	-11.8%	1.0%	2.8%
Free Cash Flow		(749)	(651)	(7)	77	67	104	151	147	188
Income Tax									0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets			2,151	2,226	2,380	3,526	5,163	4,828	4,679	4,669
Cash & Equivalents			16	41	8	6	17	18	104	93
Accounts Receivable					31	47	61	47	47	37
Inventories						-	17	6	-	2
Goodwill & Int. Ass.						84	43	34	36	36
Total Liabilities			773	934	1,155	2,047	2,751	2,659	2,663	2,192
Accounts Payable			49	44	56	103	123	124	177	97
Long-Term Debt			650	846	1,056	1,807	2,438	2,354	2,292	1,891
Shareholder's Equity			1,355	1,267	1,201	1,046	1,998	1,814	1,690	2,150
LTD/E Ratio			0.48	0.67	0.88	1.73	1.22	1.30	1.36	0.88

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets				0.6%	0.4%	-1.3%	0.9%	-1.3%	0.1%	0.3%
Return on Equity				1.0%	0.7%	-3.4%	2.6%	-3.3%	0.3%	0.8%
ROIC				0.6%	0.4%	-1.4%	1.0%	-1.4%	0.1%	0.3%
Shares Out.	2.2	23.4	59.8	62.1	62.2	65.5	80.5	109.0	111.2	116.7
Revenue/Share		3.13	3.15	3.99	4.14	4.76	5.35	4.92	4.48	4.57
FCF/Share		(32.0)	(10.9)	(0.11)	1.24	1.02	1.30	1.39	1.32	1.61

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

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