Regency Centers Corporation (REG)

Updated August 5th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$10.8 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	09/14/2022
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	10/05/2022
Dividend Yield:	4.0%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	9
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Regency Centers Corporation is a fully integrated real estate investment trust specializing in retail locations whose tenants include highly productive grocers, restaurants, service providers, and various other best-in-class retailers. The trust has full or partial ownership interests in 404 retail properties primarily anchored by market-leading grocery stores. Its properties are principally located in affluent and infill trade areas across the United States and contain more than 50 million square feet of gross leasable area. The trust generates about $1 billion in revenues and is based in Jacksonville, Florida.

On August 4th, 2022, Regency Centers Corporation reported its Q2 results for the period ending June 30th, 2022. Revenues grew by 5.2% to $302 million compared to last year. Higher revenues were attributed to Regency's properties experiencing increased occupancy and growing rents. This was due to its portfolio fundamentals continuing to benefit from structural tailwinds supporting its suburban trade areas. Uncollected lease rent declined year-over-year, contributing to the top line growth as well.

Nareit FFO grew 3.3% to $173.9 million year-over-year, driven by continued improvement in operating trends and the collection of revenues reserved during 2020 and 2021. These tailwinds were offset by higher total operating expenses. On a per-share basis, FFO landed at $1.00 compared to $0.99 in Q2-2021, affected by a higher share count.

At the end of the quarter, the trust's wholly-owned portfolio plus its pro-rata share of co-investment partnerships had a leased occupancy of 94.2%, 30 basis points higher sequentially. Regency's same-property portfolio was 94.5% leased, 20 basis points compared to the previous quarter.

For FY2022, management boosted their outlook. Same-property net operating income growth excluding termination fees is now expected to be between +1.25% and +2.25% (previously 0% to +1.5%). Further, FFO/share is expected to be between $3.92 and $3.96 (previously $3.84 to $3.90). We have updated our estimates accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/shr	$2.47	$2.63	$2.91	$2.92	$2.74	$3.10	$3.84	$3.90	$2.95	$4.02	***$3.94***	***$4.79***
DPS	$1.85	$1.85	$1.88	$1.94	$2.00	$2.10	$2.22	$2.34	*$2.38*	*$2.41*	***$2.50***	***$2.97***
Shares[1]	89.6	91.4	92.4	94.4	100.9	159.5	169.7	167.5	170.2	171.4	***172.4***	***200.0***

Regency has achieved a solid track record of modestly but gradually higher FFO/share over time. The 10-year and 5-year FFO/share CAGRs stand at 5.6% and 4.5%, respectively. Over the past few years, the trust has faced increased pressure due to retail locations suffering against consumers' shift towards e-commerce. While its largest tenants include grocery majors such as Kroger (3.1% of annualized rent), Whole Foods (2.7%), and TJX (2.6%), that shouldn't go out of business any time soon, Regency's growth prospects, appear limited. Still, some are worth noting. Regency's current growth drivers include the enchantment its portfolio value within its development pipeline as well as the pursuit of additional accretive investment opportunities. Consequently, we estimate FFO/share growth of 4% 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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Regency slashed its dividend during the Great Recession and resumed its DPS growth in 2015. Since then, dividends have grown annually. We expect DPS growth of around 3.5% in the medium-term, which underlying FFOs could sustain.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	19.8	18.3	19.6	23.6	31.4	20.6	17.2	17.2	13.5	16.6	***15.9***	***16.0***
Avg. Yld.	3.8%	3.9%	3.3%	2.8%	2.3%	3.3%	3.4%	3.5%	6.0%	3.5%	***4.0%***	***3.9%***

Regency has traded at a relatively consistent valuation, around 20 times its FFO. While the current multiple of 15.9 could appear relatively cheap, we believe it is near fair levels. It reflects both the underlying risks of the ongoing macro environment and the trust's qualities, including tenant diversification. The stock is currently offering a yield of 4.0% and, despite the risks associated with retail REITs, we expect it to remain at similar levels going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

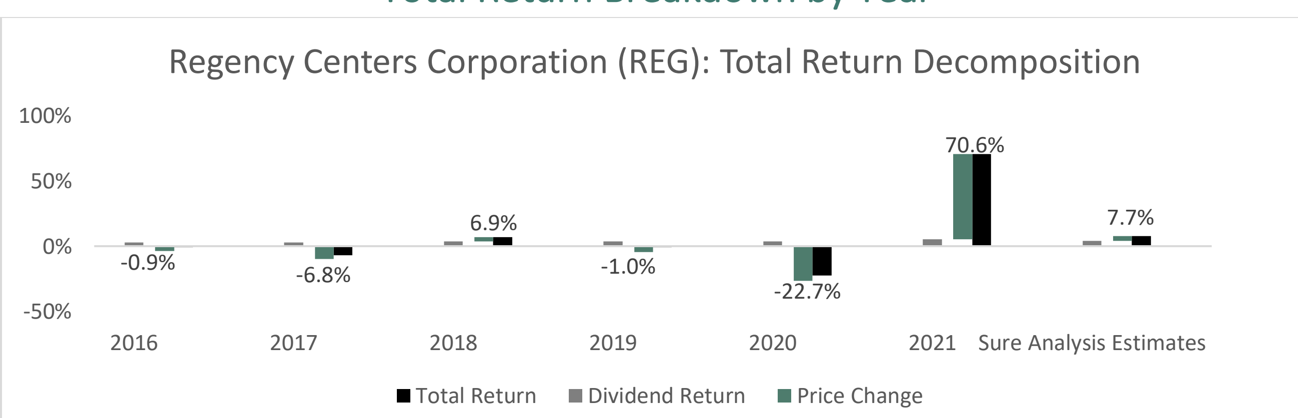
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	75%	70%	65%	66%	73%	68%	58%	60%	81%	60%	***63%***	***62%***

While Regency did cut its dividend back during the Great Financial Crisis, due to the resiliency shown during the pandemic combined with the relatively comfortable 63% payout ratio based on this year's expected FFO/share, we don't expect a dividend cut. That being said, if the trust's financials were to be under pressure again, a cut is not unlikely either. Overall, Regency enjoys some decent qualities, including a quality tenant base of blue-chip companies, with no tenant accounting for more than 3.3% of annualized base rent. It also maintains a strong balance sheet with a BBB+ credit rating from S&P, has $1.2 billion in liquidity, and features a net debt to EBITDA ratio of 5.0, which is somewhat tolerable. Still, we can't ignore the fact the trust is currently operating in what is likely the least attractive real estate sub-sector, with issues such as missing rental collections already materializing. A prolonged recession is likely to adversely impact the trust's financials and lead to a dividend cut.

Final Thoughts & Recommendation

Regency Centers has shown a robust track record of FFO generation, maintaining solid financials even during the pandemic despite facing significant headwinds during the past year. The latest 5% dividend increase and management's optimistic guidance have further bolstered our confidence in the stock. Driven by our prudent growth rate estimates and the current dividend, we forecast annualized medium-term returns of 7.7%. We rate shares a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	474	489	538	570	614	984	1,121	1,133	1,016	1,166
Gross Profit	354	364	401	425	453	731	815	827	703	839
Gross Margin	74.8%	74.5%	74.6%	74.6%	73.7%	74.2%	72.7%	73.0%	69.2%	72.0%
SG&A Exp.	62	61	60	66	65	68	65	75	75	78
D&A Exp.	128	134	148	147	162	334	360	374	346	303
Operating Profit	166	164	185	205	211	240	380	370	270	452
Operating Margin	35.1%	33.6%	34.3%	35.9%	34.4%	24.3%	33.9%	32.6%	26.5%	38.8%
Net Profit	26	150	187	150	165	176	249	239	45	361
Net Margin	5.5%	30.6%	34.8%	26.3%	26.8%	17.9%	22.2%	21.1%	4.4%	31.0%
Free Cash Flow	257	251	278	286	297	470	610	621	499	659
Income Tax	13	---	(1)	---	---	(10)	---	---	---	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,853	3,914	4,197	4,183	4,489	11146	10945	11132	10937	10790
Cash & Equivalents	22	81	114	37	13	45	45	113	376	93
Accounts Receivable	54	57	66	78	85	114	126	143	126	131
Goodwill & Int. Ass.	42	45	52	105	119	811	701	550	363	380
Total Liabilities	2,108	2,052	2,261	2,100	1,864	4,413	4,494	4,842	4,879	4,683
Accounts Payable	127	147	181	165	139	234	225	214	302	322
Long-Term Debt	1,942	1,855	2,021	1,864	1,642	3,595	3,715	3,920	3,923	3,719
Shareholder's Equity	1,406	1,518	1,582	1,729	2,266	6,692	6,398	6,213	5,985	6,037
LTD/E Ratio	1.12	1.01	1.06	0.91	0.63	0.54	0.58	0.63	0.66	0.62

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.7%	3.9%	4.6%	3.6%	3.8%	2.3%	2.3%	2.2%	0.4%	3.3%
Return on Equity	1.8%	10.2%	12.1%	9.1%	8.3%	3.9%	3.8%	3.8%	0.7%	6.0%
ROIC	0.7%	4.0%	4.9%	3.8%	4.0%	2.4%	2.4%	2.4%	0.4%	3.7%
Shares Out.	89.6	91.4	92.4	94.4	100.9	159.5	169.7	167.5	169.2	170.7
Revenue/Share	5.29	5.35	5.82	6.01	6.07	6.15	6.59	6.75	6.00	6.83
FCF/Share	2.87	2.74	3.01	3.01	2.93	2.94	3.59	3.70	2.95	3.86

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