



Federal Realty Investment Trust (FRT)

Updated November 22nd, 2022 by Samuel Smith

Key Metrics

Current Price:	\$108	5 Year CAGR Estimate:	5.0%	Market Cap:	\$8.8B
Fair Value Price:	\$94	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/30/22
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	1/17/23
Dividend Yield:	4.0%	5 Year Price Target	\$115	Years Of Dividend Growth:	55
Dividend Risk Score:	A	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 \$8.8 billion today.

On November 3rd, 2022, Federal Realty reported Q3 results. It generated funds from operations per diluted share of \$1.59 for the quarter compared to \$1.51 for the third quarter 2021. FRT also generated comparable property operating income growth of 3.7% for the third quarter and 8.8% year-to-date. It also achieved continued record levels of leasing with 119 signed leases for 562,859 square feet of comparable space in the third quarter, the highest third quarter volume on record. Federal Realty's portfolio was 92.1% occupied and 94.3% leased, representing year-over-year increases of 190 basis points and 150 basis points, respectively and 10 basis point and 20 basis point increases, respectively quarter-over-quarter. It continued its strong small shop leasing momentum as well, ending the quarter at 89.9% leased, an increase of 60 basis points over second quarter 2022, an increase of 380 basis points year-over-year and an increase of 640 basis points since the COVID-era low.

FRT also sold two non-core assets for a combined sales price of \$67 million in the third quarter. After quarter end, FRT increased its total bank capacity by \$550 million to \$1.85 billion and amended its revolving credit facility, increasing the borrowing capacity from \$1.0 billion to \$1.25 billion and extending the maturity date to April 5, 2027, plus two six-month extension options. FRT also amended its unsecured term loan and borrowed an additional \$300.0 million for a total of \$600.0 million and increased 2022 FFO per diluted share guidance to \$6.27 - \$6.32.

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	\$6.28	\$7.64
DPS	\$2.84	\$3.02	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.22	\$4.26	\$4.32	\$4.89
Shares¹	64.9	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.2	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.

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.

¹ Share count 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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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	22.9	19.6	20.7	16.2	24.6	17.2	15.0
Avg. Yld.	2.80%	2.80%	2.50%	2.60%	2.50%	3.00%	3.30%	3.20%	5.80%	3.30%	4.0%	4.3%

Federal Realty's valuation now stands at 17.2 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%	66%	67%	68%	68%	67%	65%	66%	93%	76%	69%	64%

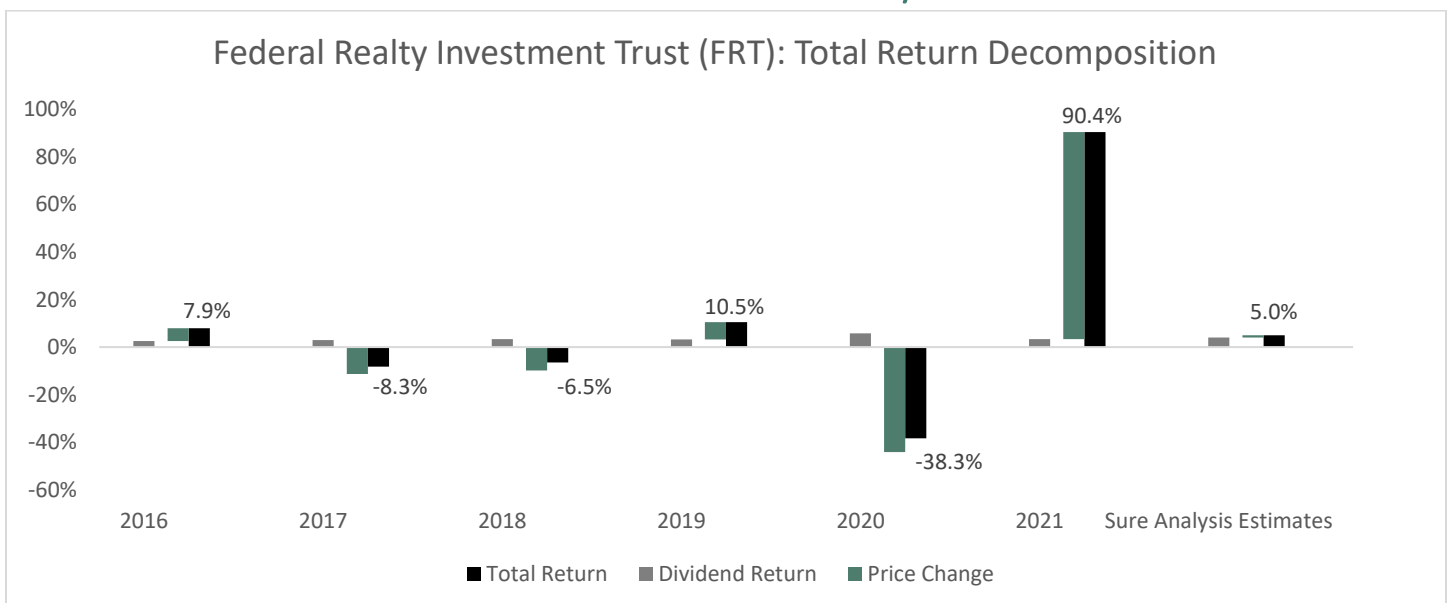
This year's payout ratio is higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see 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 5.0% 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 attractive dividend are somewhat 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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