Kimco Realty (KIM)

Updated November 7th, 2022 by Samuel Smith

Key Metrics

Current Price:	$21.4	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$12.8B
Fair Value Price:	$15.4	**5 Year Growth Estimate:**	4.8%	**Ex-Dividend Date:**	12/08/22
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.4%	**Dividend Payment Date:**	12/23/22
Dividend Yield:	4.3%	**5 Year Price Target**	$19	**Years of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Kimco Realty is a real estate investment trust that owns, develops, manages and operates shopping centers. Kimco, in particular, specializes in open-air shopping centers. The trust was founded in 1973, is headquartered in New Hyde Park, NY, and currently trades with a market capitalization of about $12.8 billion.

On October 27th, Kimco Realty reported Q3 results. It produced Funds From Operations (FFO) of $0.41 per diluted share, representing a 28.1% increase over the comparable period in 2021. It also grew pro-rata portfolio occupancy by 20 basis points sequentially to 95.3%, representing an increase of 120 basis points year over year while increasing pro-rata anchor and small shop occupancy 90 and 190 basis points, respectively, over the third quarter of 2021. Kimco generated pro-rata rent spreads of 16.5% for new leases on comparable spaces and produced a 3.1% increase in Same-Property Net Operating Income (NOI) over the same period a year ago. Finally, it achieved a Net Debt to EBITDA ratio of 6.3x on a look-through basis (which includes company's outstanding preferred stock and pro-rata share of joint venture debt), marking the lowest leverage level since the company began reporting this metric.

Subsequent to quarter end, Kimco generated net proceeds of approximately $301.1 million through the monetization of 11.5 million of its 39.8 million shares in Albertsons Companies, Inc. (ACI). Kimco still retains 28.3 million shares of Albertsons.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFOPS	$1.26	$1.33	$1.40	$1.46	$1.50	$1.52	$1.45	$1.47	$1.17	$1.38	***$1.54***	***$1.95***
DPS	$0.78	$0.86	$0.92	$0.98	$1.02	$1.08	$1.12	$1.12	$0.54	$0.61	***$0.92***	***$1.09***
Shares[1]	407.9	409.8	412.6	413.7	425.6	425.5	421.4	431.8	432.4	616.7	***618.5***	***620.0***

As REITs have high non-cash expenses, primarily due to depreciation, their net earnings are usually relatively low and are therefore not reflective of the underlying earnings power and ability to generate cash flows. It thus makes sense to look at funds from operations, or FFO. Kimco Realty's FFOPS is substantially lower than before the financial crisis, but the trust has performed relatively well over the last couple of years. Kimco Realty should be able to grow its FFO through rent increases and rising operating income in the coming years as it has largely completed its portfolio repositioning program. The underlying operating performance of Kimco Realty is strong, which is reflected in positive same-property NOI growth, and it owns high quality assets in strong markets. The trust is not facing many problems due to e-commerce hurting sales at its properties so far as many of its tenants are relatively immune to e-commerce.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	15.1	16.2	16.4	17.3	18.8	13.5	9.9	13.7	9.0	18.6	***13.9***	***10.0***
Avg. Yld.	4.1%	4.0%	4.0%	3.9%	3.6%	5.3%	7.8%	5.6%	5.1%	2.4%	***4.3%***	***5.6%***

[1] In millions

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Kimco Realty trades for 13.9 times this year's expected funds from operations, which represents a premium to our fair value estimate of 10 times funds from operations. During the majority of the last decade, Kimco traded at a higher valuation, but we believe it no longer warrants a mid-teens multiple due to the decline in growth opportunities in bricks-and-mortar retail, and the lingering headwinds from fallout of the coronavirus pandemic.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	62%	65%	66%	67%	68%	71%	77%	76%	46%	44%	***60%***	***56%***

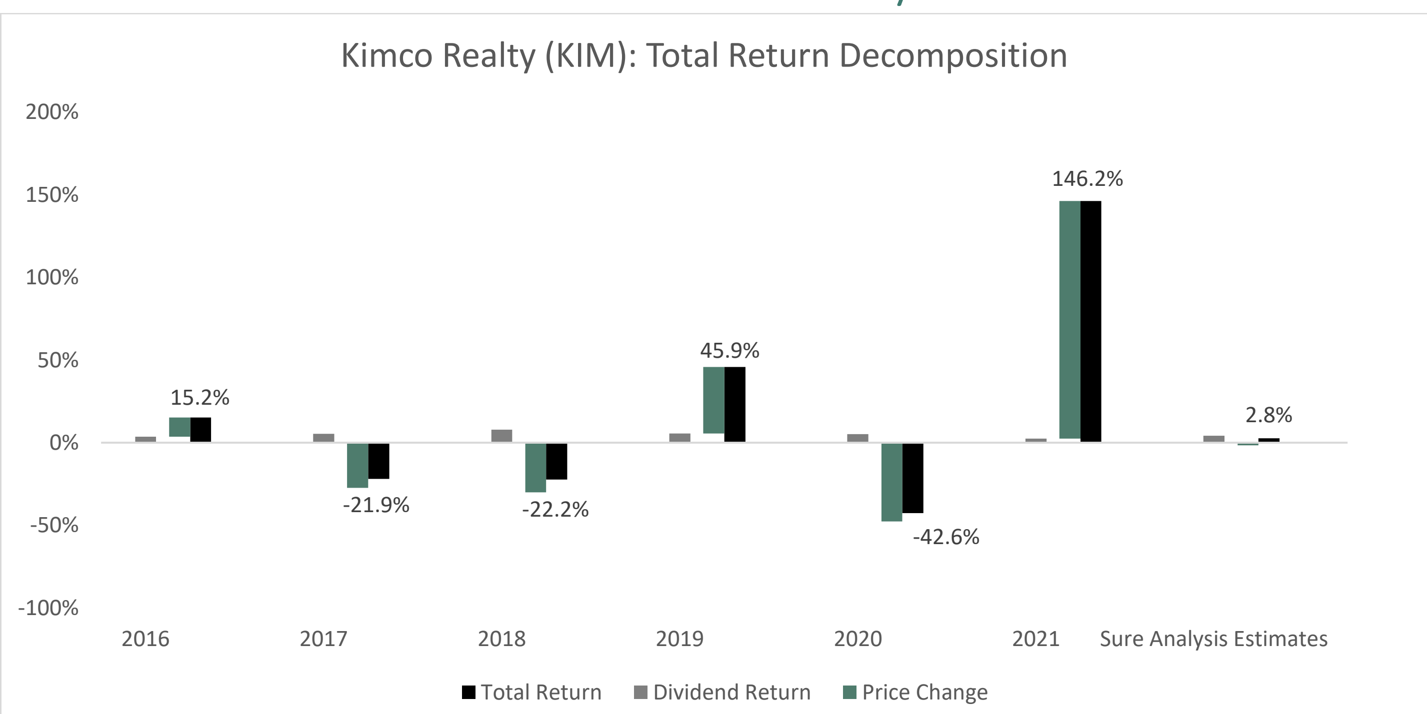
Kimco was forced to temporarily suspend its dividend due to weak economic conditions last year but has since resumed paying a dividend. However, it remains significantly below pre-pandemic levels.

Some mall REITs are under a lot of pressure due to declining traffic at the malls they own, which leads to lower occupancy rates and to lower rents at the same time. Kimco Realty's focus on outdoor shopping-centers has shielded the trust from such developments so far. Traffic at its properties is solid, and its tenant base is strong as well. Top tenants include Home Depot, TJX, Walmart, as well as many grocers. During the last financial crisis Kimco Realty did not remain profitable (using FFO), but during less severe recessions the trust would likely not be impacted significantly.

Final Thoughts & Recommendation

Kimco Realty is a retail REIT, but its shopping-center focus provides some protection versus the rise of e-commerce companies, and the underlying performance of Kimco's assets has been very solid in the recent past. Given that COVID-19 headwinds are increasingly insignificant and much of the most e-commerce sensitive tenants have largely been pruned from the portfolio, per-share FFO should begin to grow again. Kimco Realty earns a Sell recommendation from Sure Dividend as shares offer weak 2.8% expected annualized total returns over the next half decade due to expected multiple compression offsetting its growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	793	862	994	1,167	1,171	1,201	1,165	1,159	1,058	1,365
Gross Profit	679	739	855	1,007	1,013	1,032	1,000	994	889	1,170
Gross Margin	85.6%	85.8%	86.0%	86.3%	86.5%	86.0%	85.9%	85.8%	84.0%	85.7%
SG&A Exp.	124	127	122	123	87	92	88	97	93	104
D&A Exp.	263	258	273	345	355	361	310	278	289	395
Operating Profit	243	282	350	389	394	405	432	447	333	447
Operating Margin	30.7%	32.7%	35.2%	33.3%	33.7%	33.7%	37.1%	38.6%	31.5%	32.8%
Net Profit	266	236	424	894	379	426	498	411	1,001	844
Net Margin	33.5%	27.4%	42.7%	76.6%	32.4%	35.5%	42.7%	35.4%	94.6%	61.9%
Free Cash Flow	479	570	629	494	592	614	638	584	590	619
Income Tax	16	33	22	60	79	(1)	2	(3)	1	3

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,751	9,664	10,261	11,344	11,231	11,764	10,999	10,998	11,614	18,459
Cash & Equivalents	142	149	187	190	142	239	144	124	293	326
Acc. Receivable	172	164	172	175	182	190	185	219	178	184
Total Liabilities	4,738	4,808	5,268	6,076	5,741	6,225	5,564	6,051	5,928	8,336
Accounts Payable	112	124	130	150	146	186	175	170	146	220
Long-Term Debt	4,195	4,221	4,596	5,376	5,066	5,479	4,874	5,316	5,355	7,476
Total Equity	4,765	4,632	4,775	5,046	5,256	5,394	5,334	4,865	5,608	9,899
LTD/E Ratio	0.88	0.91	0.96	1.07	0.96	1.02	0.91	1.09	0.96	0.76

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.7%	2.4%	4.3%	8.3%	3.4%	3.7%	4.4%	3.7%	8.9%	5.6%
Return on Equity	5.6%	5.0%	9.0%	18.2%	7.4%	8.0%	9.3%	8.1%	19.1%	10.9%
ROIC	2.9%	2.6%	4.5%	8.8%	3.6%	4.0%	4.7%	4.0%	9.4%	5.9%
Shares Out.	407.9	409.8	412.6	413.7	425.6	425.5	421.4	431.8	432.4	616.7
Revenue/Share	1.95	2.11	2.42	2.83	2.79	2.83	2.76	2.75	2.45	2.67
FCF/Share	1.18	1.40	1.53	1.20	1.41	1.45	1.51	1.38	1.37	1.21

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