Tanger Factory Outlet Centers, Inc. (SKT)

Updated November 8th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$2.0 B
Fair Value Price:	$19	**5 Year Growth Estimate:**	1.5%	**Ex-Dividend Date[1]:**	10/28/2022
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date[1]:**	11/15/2022
Dividend Yield:	4.7%	**5 Year Price Target:**	$20	**Years of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Tanger Factory Outlet Centers, Inc. (SKT) is one of the largest owners and operators of outlet centers in the United States and Canada. SKT operates and owns, or has a stake in, a portfolio of 37 upscale outlet shopping centers. SKT owns properties across 20 states and in Canada, totaling 14.0 million square feet. SKT leases to over 2,700 stores operated by over 600 different brand name companies. SKT is headquartered in Greensboro, North Carolina. Its market capitalization is $2.0 billion. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

On October 11th, 2022, Tanger announced a 10% dividend increase to $0.88 per share annually.

Tanger reported third quarter 2022 results on November 2nd. Tanger announced funds from operations (FFO) of $0.47 per share for the quarter, up significantly compared to $0.16 per share in the prior year quarter. Core FFO of $0.47 per share was flat compared to Q3 2021. Funds available for distribution (FAD) payout ratio for the quarter was 43%.

As of September 30th, 2022, Tanger had renewals executed or in process for only 75.6% of the total portfolio space schedule to expire during 2022. The consolidated portfolio occupancy rate was 96.5% at quarter-end, compared to 94.4% one year ago. Average tenant sales productivity was about flat at $446 per square feet for the trailing twelve months, compared to $448 per square feet in the prior year.

The trust increased fiscal 2022 guidance and are estimating diluted FFO per share between $1.78 to $1.83 (up from $1.73 to $1.79 previously). We have increased our 2022 AFFO per share forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	$1.65	$1.88	$1.97	$2.22	$2.37	$2.46	$2.48	$2.31	$1.57	$1.76	***$1.80***	***$1.94***
DPS	$0.83	$0.89	$0.95	$1.10	$1.26	$1.35	$1.39	$1.42	$0.71	$0.72	***$0.88***	***$0.92***
Shares[2]	99.0	99.0	99.0	100.0	100.0	100.0	98.0	98.0	97.0	106.8	***110.5***	***115.0***

In 2022, Tanger is continuing to evolve their core strategies in leasing, operations, and marketing of their outlet centers, curating their tenant mix to maximize shopper frequency, keeping shoppers at the mall locations, and attracting new shoppers to their outlet centers. Occupancy must be increased, but fortunately rent collections have normalized since early- to mid-2021. The trust will work to recapture space due to previously announced closures and any additional space that may come back from ongoing negotiations with select tenants. Tanger will also continue improving their digital transformation efforts. AFFO per share had grown steadily prior to the COVID pandemic, however the multiple government-mandated store closures, stay-at-home orders, and expiring leases severely damaged AFFO. We estimate that AFFO will grow slowly in the near-term, due to many leases expiring over the next few years. The 27-year-old dividend growth streak was ended after the dividend was effectively cut in half. The Trust has bought back $20 million of shares in both 2018 and 2019, however bought none in 2020 and could not purchase shares until July 1st, 2021, due to amended debt agreements. We are impressed by the history of SKT's share count as it has remained very stable over the

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[1] Estimate

[2] 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.

years, which is uncommon for a REIT. We expect the share count to remain stable or increase slightly over the long term, as the effects of the pandemic has pushed the company to issue equity.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	N/A	9.7	9	7.6	9.5	9.7	11.1	11.8	12.7	9.8	***10.5***	***10.5***
Avg. Yld.	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	3.6%	***4.7%***	***4.5%***

The current P/AFFO of 10.5 based on 2022's estimated AFFO represents a 4.5% discount to the 5-year average of 11. Still, we estimate that SKT's current multiple is a fair value given the lower-than-average portfolio occupancy for the trust, and upcoming lease expirations. Were this to reverse, the P/AFFO could come in higher.

Safety, Quality, Competitive Advantage, & Recession Resiliency

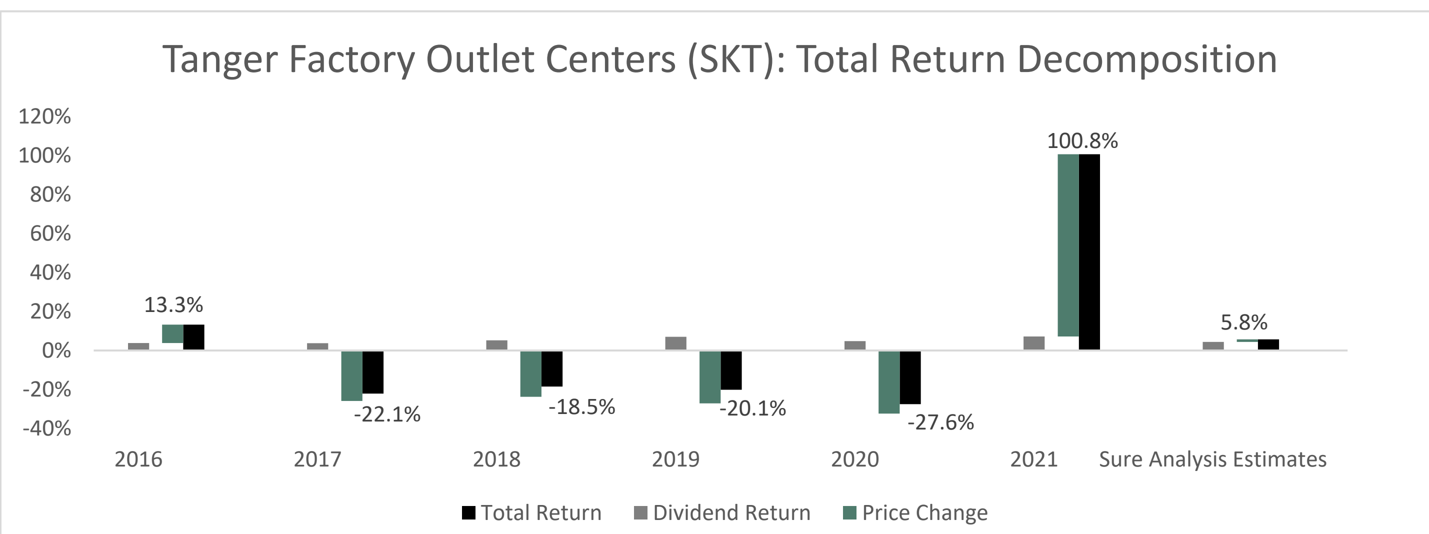
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	2027
Payout	50%	47%	48%	50%	53%	55%	56%	61%	45%	41%	***49%***	***48%***

The payout ratio for SKT is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 52% is safe, especially for a REIT, as this sector is known for its high payout ratios. The expected payout of 48% in 2027 is safe and leaves room for dividend growth. SKT's management has a track record of success spanning over four decades. These 41 years of outlet industry experience, extensive development expertise, and strong retail relationships give them their competitive advantage in the outlet business. SKT went through the Great Recession virtually unscathed as AFFO fell only 2.2% from 2008 to 2010. Outlet centers provide good value for the cost and so this industry should see similar or growing foot traffic and earnings when the population tightens their purse string, however, store closures due to COVID-19 have not made this possible and suffocated their revenue stream in 2020.

Final Thoughts & Recommendation

Tanger was gravely affected by the pandemic and the trust lost their 27-year-old dividend growth streak. We conservatively estimate 1.5% AFFO per share growth and a 0.1% annual gain due to multiple expansion, in addition to the 4.7% dividend yield. We are estimating total annualized returns of 5.8%, while the stock trades at fair value, thus we rate SKT as a hold at the current price. The overall sentiment in the mall REIT space is negative and has weighed heavily on share prices over the past few years, so we advise caution.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	357	385	419	439	466	488	495	478	390	427
Gross Profit	246	264	281	293	314	333	334	321	253	286
Gross Margin	68.9%	68.5%	67.2%	66.7%	67.4%	68.2%	67.6%	67.0%	64.8%	67.0%
SG&A Exp.	37	39	44	44	47	44	44	54	48	66
D&A Exp.	99	96	102	104	115	128	132	123	117	110
Operating Profit	110	129	134	144	152	161	158	144	88	110
Op. Margin	30.7%	33.5%	32.1%	32.9%	32.6%	33.0%	32.0%	30.0%	22.6%	25.8%
Net Profit	53	108	74	211	194	68	44	88	-36	9
Net Margin	14.9%	28.0%	17.7%	48.1%	41.6%	13.9%	8.8%	18.4%	-9.3%	2.1%
Free Cash Flow	166	187	189	221	239	253	258	220	165	218

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,679	2,006	2,098	2,315	2,526	2,540	2,385	2,285	2,190	2,157
Cash & Equivalents	10	15	17	22	12	6	9	17	85	161
Goodwill & Int.		0	46							
Total Liabilities	51	103	80	57	75	50	29	11	-4	-17
Accounts Payable	1,165	1,449	1,574	1,709	1,821	1,928	1,879	1,829	1,831	1,658
Long-Term Debt	1,094	1,328	1,443	1,552	1,688	1,764	1,713	1,570	1,568	1,397
Total Equity	483	522	497	575	670	582	480	433	341	478
LTD/E Ratio	2.27	2.54	2.90	2.70	2.52	3.03	3.57	3.62	4.59	2.92

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.2%	5.8%	3.6%	9.6%	8.0%	2.7%	1.8%	3.8%	-1.6%	0.4%
Return on Equity	11.3%	21.4%	14.5%	39.4%	31.1%	10.9%	8.2%	19.2%	-9.4%	2.2%
ROIC	3.4%	6.2%	3.8%	10.2%	8.5%	2.9%	1.9%	4.1%	-1.8%	0.5%
Shares Out.	99.0	99.0	99.0	100.0	100.0	100.0	98.0	98.0	97.0	106.8
Revenue/Share	3.85	4.08	4.46	4.64	4.89	5.17	5.30	5.06	4.30	3.74
FCF/Share	1.79	1.99	2.01	2.33	2.51	2.68	2.77	2.33	1.82	1.91

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