Simon Property Group (SPG)

Updated November 1st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$113	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$37 B
Fair Value Price:	$130	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/08/22
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date:**	12/30/22
Dividend Yield:	6.4%	**5 Year Price Target**	$151	**Years of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Simon Property Group is a real estate investment trust (REIT) that was formed in 1993. The trust focuses on retail properties, mainly in the US, with the goal of being the premier destination for high-end retailers and their customers. The trust has interests in 230 different properties that amount to 184 million square feet of leasable space. Simon produces about $5.0 billion in annual revenue and has a market capitalization of $42.3 billion.

On November 1st, 2022, Simon reported its Q3 earnings for the period ending September 30th, 2022. Total revenues were $1.32 billion, 1.5% higher than the comparable period last year. Higher revenues were powered by the continued recovery in retail real estate, strong leasing momentum, and elevated occupancy levels.

Specifically, portfolio NOI, which includes domestic properties, international properties, and Simon's investment in Taubman Realty Group, increased by 3.2% compared to the prior-year period. Simon's massive acquisition of Taubman continues to be proven accretive to the overall performance. Further, occupancy stood at 94.5% compared with 92.8% in Q3-2021. Accordingly, comparable FFO per share rose by 1.7% to $2.97.

Following a better-than-expected quarterly performance, management raised its prior full-year outlook, now expecting FFO/share to be in a range of $11.83 to $11.88 (up from $11.70 to $11.77 previously). We have utilized the midpoint of this range in our estimates.

Further, the company once again raised its dividend to a quarterly rate of $1.80, marking a 2.9% increase sequentially or a 9.1% increase year-over-year. Finally, the company continued utilizing the $2 billion share repurchase program announced in the previous quarter, buying back roughly 0.4 million shares, or 0.1% of its total outstanding shares.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/Shr	$7.98	$8.85	$8.90	$9.86	$10.49	$11.21	$12.13	$12.37	$9.11	$11.94	***$11.86***	***$13.75***
DPS	$4.10	$4.65	$5.15	$6.05	$6.50	$7.15	$7.90	$8.30	$6.00	$5.85	***$7.20***	***$8.35***
Shares[1]	310.0	310.0	311.0	309.0	313.0	311.0	309.0	306.0	308.7	328.5	***327.3***	***325.0***

Simon's FFO history has been quite resilient, seeing only a minor dip in profitability during the Great Recession. Simon's focus on high-end retailing has proven an immense source of strength in recent years, and we see that steady performance continuing. However, given Simon's already dominant position in the retail sector, the seemingly unstoppable rise of e-commerce crimping demand for physical stores, and how mature the current economic cycle is, it looks like Simon and other retail REITs will have a harder time with future FFO growth. That said, Simon is still the best retail REIT in the market by many metrics. Its occupancy rates remain high and it has a base minimum rent of $54.80 per square foot on average, which is tremendously high for the retail space. Simon has built a niche with high-end retailers over the years such that it has the most desirable spaces and developments and thus sees a virtuous combination of high occupancy and leasing rates. Its recent investment in Taubman seems to be stabilizing as well, with the company likely able to unlock operational efficiencies going forward. Simon was forced to cut its dividend to withstand its weaker performance caused by the pandemic, though management has raised it sequentially over the past few quarters. We

[1] In millions

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continue to expect FFO/share and DPS growth of 3% going forward, reflecting the REIT's potential for growth in its square feet and lease rates while still remaining prudent against a shaky macro environment filled with uncertainty.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	18.7	18.4	19.0	19.1	19.2	15.1	13.9	11.9	8.8	11.6	***9.5***	***11.0***
Avg. Yld.	2.7%	2.9%	3.0%	3.2%	3.2%	4.2%	4.7%	5.6%	6.5%	4.3%	***6.4%***	***5.5%***

Simon's valuation has averaged 15.6 times FFO over the past decade. At just 9.5 times FY2022's projected FFO, the stock appears rather undervalued, especially considering the raised guidance and raised dividend. We believe there could be room for a notable valuation multiple expansion ahead to a P/FFO of 11 due to Simon's impressive results while still considering the ongoing macroeconomic-related uncertainties and risks attached to mall REITs. Further, the stock's current yield of 6.4% remains higher than its decade average of nearly 4.0%, which income-oriented investors are likely to appreciate given the recent volatility in the market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	51%	53%	58%	61%	62%	64%	65%	67%	66%	49%	***61%***	***61%***

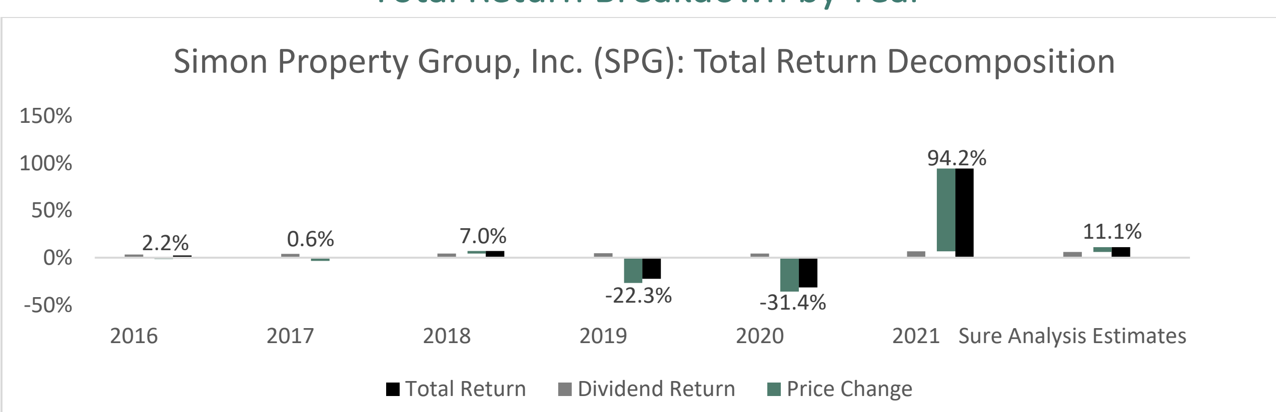
Simon's quality metrics have been very stable in the past decade as the company has kept operating metrics such as balance sheet leverage and interest coverage (3.3x) in a fairly narrow range. Profitability should improve further over time, with Simon's capacity to raise prices remaining robust. The payout ratio is currently at a very safe range too

Simon's competitive advantage is in its world-class portfolio of properties that allow it to charge industry-best leasing rates. Another advantage is its low cost of capital that comes from its A-rated balance sheet, enabling it to invest in ways that competitors cannot afford to. That being said, it is not immune to recessions, as proven by its dividend cut during 2020 amid, admittedly, a black swan event for the industry. However, despite the cut, Simon's operations have held up fairly well, and have almost fully recovered already.

Final Thoughts & Recommendation

Overall, we forecast Simon to produce 11.1% total annualized returns in the coming years, driven by a starting yield of 6.4%, modest growth, and valuation tailwinds. We believe that Simon shares are cheaply valued while offering an above-average yield. The company's healthy metrics, world-class management, high-quality real estate portfolio, and the so-far successful acquisition of Taubman should keep translating to robust financials. We rate Simon as a buy at current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4256	4544	4871	5266	5435	5539	5658	5,755	4,608	5,117
Gross Profit	3456	3706	3988	4306	4464	4559	4650	4,734	3,720	4,146
Gross Margin	81.2%	81.6%	81.9%	81.8%	82.1%	82.3%	82.2%	82.2%	80.7%	81.0%
SG&A Exp.	291	319	355	350	366	338	334	185	121	145
D&A Exp.	1301	1333	1286	1239	1328	1357	1350	1,394	---	1,326
Operating Profit	2000	2189	2385	2669	2721	2802	2911	2,908	1,972	2,431
Operating Margin	47.0%	48.2%	49.0%	50.7%	50.1%	50.6%	51.5%	50.5%	42.8%	47.5%
Net Profit	1434	1320	1409	1828	1839	1948	2440	2,102	1,113	2,250
Net Margin	33.7%	29.0%	28.9%	34.7%	33.8%	35.2%	43.1%	36.5%	24.2%	44.0%
Free Cash Flow	1711	1860	1934	2004	2574	2862	2969	2,932	---	3,109
Income Tax	16	40	28	20	30	23	37	30	-4.6	157

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	32587	33325	29532	30565	31104	32258	30686	31232	34790	33780
Cash & Equivalents	1185	1691	612	701	560	1482	514	669	1012	534
Acc. Receivable	521	520	580	625	665	743	764	832	1237	920
Goodwill & Int.	507	376	312	276	285	209	151	96	---	53
Total Liabilities	25694	26502	23581	25349	26144	28019	26889	28320	31310	29920
Accounts Payable	1374	1223	1260	1324	1214	1269	1317	1391	1312	1433
Long-Term Debt	23113	22670	20853	22417	22977	24564	23238	24096	26720	25260
Total Equity	5866	5805	5049	4428	4267	3643	3254	2484	2997	3320
LTD/E Ratio	3.91	3.88	4.09	5.01	5.33	6.66	7.05	9.54	8.79	7.51

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.9%	4.0%	4.5%	6.1%	6.0%	6.1%	7.8%	6.8%	3.4%	6.6%
Return on Equity	27.4%	22.6%	26.0%	38.6%	42.3%	49.3%	70.8%	73.3%	40.6%	71.2%
ROIC	5.3%	4.4%	5.0%	6.7%	6.6%	6.9%	8.7%	7.8%	3.9%	7.6%
Shares Out.	310	310	311	309	313	311	309	306	309	329
Revenue/Share	14.04	14.65	15.68	16.98	17.38	17.78	18.27	18.69	149.2	15.57
FCF/Share	5.64	5.99	6.22	6.46	8.23	9.19	9.59	9.52	---	9.46

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