



# Phillips Edison & Company, Inc. (PECO)

Updated February 10<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	3.9%	<b>Market Cap:</b>	\$4.39 B
<b>Fair Value Price:</b>	\$29	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	02/20/2023
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.6%	<b>Dividend Payment Date:</b>	03/01/2023
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$34	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Phillips Edison & Company, Inc. is a real estate investment trust that is one of the nation's largest owners and operators of omni-channel grocery-anchored shopping centers. Additionally, the company runs a third-party investment management business providing property management and advisory services to unconsolidated joint ventures and one private fund. As of December 31<sup>st</sup>, 2022, the company's portfolio consisted of 271 wholly-owned shopping centers, totaling approximately 30.7 million square feet, spread across 31 states. Phillips Edison & Company generates just over \$575 million in annual revenues, pays dividends on a monthly basis, and is based in Cincinnati, Ohio.

On February 9<sup>th</sup>, 2023, Phillips Edison & Company reported its Q4 and full-year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, total revenues came in at \$145.0 million, 5.8% higher year-over-year. This was due to a higher same-store NOI, which improved by 2.8% to \$91.0 million, combined with new and renewal leasing spreads of 36.3% and 13.9%, respectively, and record occupancy of 97.4% at the end of the quarter. For context, leased occupancy stood at 97.1% in the previous quarter. Along with lower interest expenses and marginally lower operating expenses, Nareit FFO for the quarter skyrocketed by 42.9% to \$70.6 million. Nareit FFO per share rose to \$0.54, up from \$0.39 in the period-year period – a strong 38.5% increase despite share issuances. During the quarter, the company acquired two grocery-anchored shopping centers for \$51.7 million and sold one property for \$25.3 million.

The company updated its FY2023 guidance, expecting FFO per share to land between \$2.23 and \$2.29. This implies a year-over-year growth of 5.1% at the midpoint, which have employed in our estimates.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO/shr</b>	\$0.55	\$0.95	\$1.85	\$1.77	\$1.28	\$1.94	\$1.99	\$1.99	\$1.81	\$2.15	<b>\$2.26</b>	<b>\$2.62</b>
<b>DPS</b>	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$0.59	\$1.04	\$1.09	<b>\$1.12</b>	<b>\$1.43</b>
<b>Shares<sup>1</sup></b>	23.4	59.8	62.1	62.2	65.5	80.5	109.0	111.2	116.7	130.3	<b>130.3</b>	<b>145.0</b>

Phillips Edison's FFO/share generation has been rather robust over the years, despite the company operating in a rather unfavorable real estate sub-sector. By creating Omni-channel grocery-anchored shopping experiences, the company's properties enjoy resilient traffic. Future growth is to be powered by accretive acquisitions, high retention rates, and a focus on increasing occupancy. Driving leasing spreads higher, executing redevelopment projects, and implementing rent hikes in new leases should also lead to NOI growth, which should, in turn, lead to increased FFOs. In 2020, same-store NOI declined 4.1% in the midst of the pandemic, followed by a rise of 8.2% in 2021 amid NOI normalizing. In 2022, NOI growth was 4.5% further converging toward its mean. For context, in 2017, 2018, and 2019, the metric rose by 3.5%, 3.7%, and 3.7%, respectively. Overall, based on the company's historical leasing margins, same-store NOI growth, and portfolio composition, we forecast FFO/share growth of 3% through 2028.

<sup>1</sup> 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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In terms of its dividend, Phillips Edison slashed it during the pandemic, despite producing relatively robust results, as payouts were barely covered. Note that the company was not public at the time. The dividend has been increased twice since. Due to adequate room for growth following the slash, we forecast a DPS CAGR of 5% in the medium-term.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/FFO	---	---	---	---	---	---	---	---	16.5	14.4	<b>14.8</b>	<b>13.0</b>
Avg. Yld.	---	---	---	---	---	---	---	---	3.4%	3.5%	<b>3.3%</b>	<b>4.2%</b>

While the stock's trading history in the public markets is short, shares have attracted a modest premium relative to its retail real estate peers. This is likely attributable to the company's properties being anchored to grocery stores, resulting in more resilient results, as well as dividends being paid monthly, which income-oriented investors generally appreciate. That said, we find Phillips Edison somewhat overvalued. We believe that a multiple close to 13 better reflects the company's prospects. A higher dividend yield following multiple compression would better match the stock's risk profile as well.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

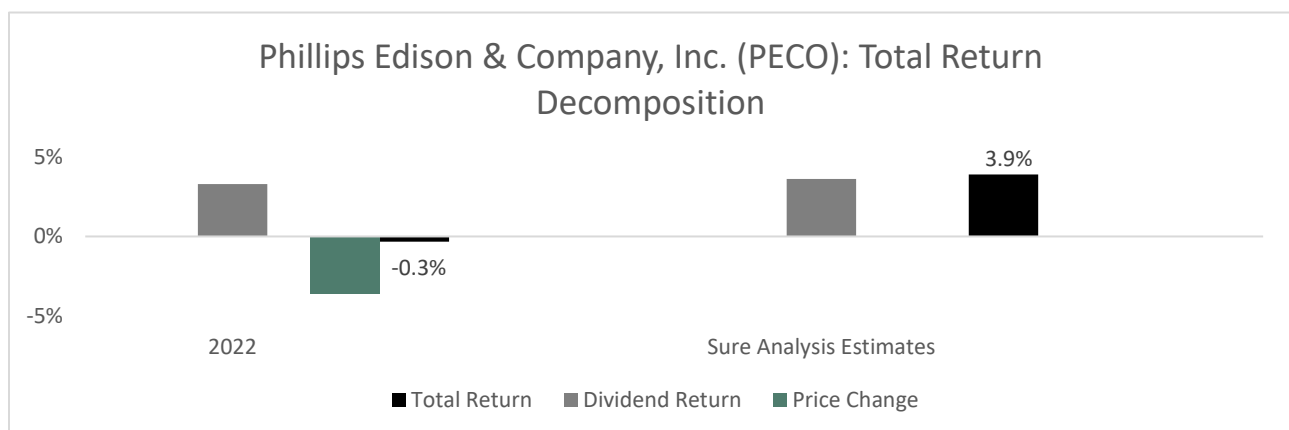
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	365%	212%	109%	114%	157%	104%	101%	30%	57%	51%	<b>50%</b>	<b>55%</b>

Phillips Edison's dividend should be relatively safe at its current levels, due to a healthy payout ratio following the latest cut. The company features several qualities as well, including the ability to retain excellent occupancy rates due to a necessity-based property portfolio, modest rent growth prospects, and noteworthy cash flow diversification. Further, the company's outstanding debt has a weighted average interest rate of 3.6% and a weighted average maturity of 4.4 years, while 85% of the total debt was fixed rate debt. That said, we believe that overall growth in the retail real estate space should be rather limited. Additionally, while the company's metrics should remain relatively robust compared to its average peer amid its tenants focusing on necessity-based goods and services, it's still vulnerable to a recession.

## Final Thoughts & Recommendation

Phillips Edison & Company is a rather noteworthy retail real estate REIT with a number of qualities. However, we believe that potential returns from the growth in FFO/share could be largely offset by valuation headwinds. Our annualized total return potential comes out at just 3.9% for the medium-term, powered by the dividend yield. The frequency of payouts is attractive, but we would require a higher projected return to hold the stock. PECO earns a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue		73	188	242	258	312	430	537	498	533
Gross Profit		52	130	168	179	214	298	376	344	375
Gross Margin		70.5%	69.1%	69.6%	69.5%	68.8%	69.2%	70.0%	69.0%	70.3%
SG&A Exp.		4	9	16	38	37	50	49	41	49
D&A Exp.		29	77	98	103	130	191	237	225	221
Operating Profit		17	42	51	36	47	56	90	77	104
Operating Margin		22.9%	22.4%	21.1%	13.8%	15.0%	13.0%	16.8%	15.6%	19.6%
Net Profit		(12)	(23)	13	9	(38)	39	(64)	5	15
Net Margin		-17.0%	-12.0%	5.5%	3.5%	-12.3%	9.1%	-11.8%	1.0%	2.8%
Free Cash Flow		(749)	(651)	(7)	77	67	104	151	147	188
Income Tax									0	0

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets			2,151	2,226	2,380	3,526	5,163	4,828	4,679	4,669
Cash & Equivalents			16	41	8	6	17	18	104	93
Accounts Receivable					31	47	61	47	47	37
Inventories						-	17	6	-	2
Goodwill & Int. Ass.						84	43	34	36	36
Total Liabilities			773	934	1,155	2,047	2,751	2,659	2,663	2,192
Accounts Payable			49	44	56	103	123	124	177	97
Long-Term Debt			650	846	1,056	1,807	2,438	2,354	2,292	1,891
Shareholder's Equity			1,355	1,267	1,201	1,046	1,998	1,814	1,690	2,150
LTD/E Ratio			0.48	0.67	0.88	1.73	1.22	1.30	1.36	0.88

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets				0.6%	0.4%	-1.3%	0.9%	-1.3%	0.1%	0.3%
Return on Equity				1.0%	0.7%	-3.4%	2.6%	-3.3%	0.3%	0.8%
ROIC				0.6%	0.4%	-1.4%	1.0%	-1.4%	0.1%	0.3%
Shares Out.	2.2	23.4	59.8	62.1	62.2	65.5	80.5	109.0	111.2	116.7
Revenue/Share		3.13	3.15	3.99	4.14	4.76	5.35	4.92	4.48	4.57
FCF/Share		(32.0)	(10.9)	(0.11)	1.24	1.02	1.30	1.39	1.32	1.61

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

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