Kite Realty Group Trust (KRG)

Updated August 2nd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	8.2%	**Market Cap:**	$5.2 B
Fair Value Price:	$24	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	10/05/2023[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	10/13/2023[1]
Dividend Yield:	4.1%	**5 Year Price Target:**	$30	**Years of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Kite Realty Group Trust is a full-service, vertically integrated real estate investment trust that owns mainly open-air community shopping centers across the United States. The trust has a diverse portfolio of community, neighborhood, and lifestyle centers. Kite Realty Group trades on the NYSE under the ticker symbol KRG and is headquartered in Indianapolis, Indiana. The Trust has a market capitalization of $5.2 billion. Kite Realty Group Trust owns 181 operating retail properties comprising 28.6 million square feet.

On February 8th, 2023, Kite Realty declared a $0.24 quarterly distribution, which was 20% higher year-over-year.

Kite Realty Group reported second quarter 2023 results on July 31st, 2023. The trust reported AFFO of $114 million, or $0.51 per diluted common share compared to $108 million, or $0.49 per share in second quarter 2022. KRG's same-property net operating income (NOI) rose by 5.7%.

During the quarter, the trust executed 190 new and renewal leases, totaling 1.3 million square feet. Annualized base rent (ABR) per square foot for the retail portfolio rose 2.7% year-over-year, to $20.19. KRG had leased 94.1% of the portfolio at the end of the quarter. The economic occupancy percentage of 92.3% compares favorably to the prior year quarter's 91.5%. KRG's net-debt-to-Adjusted EBITDA was 5.0X at quarter end, which is an all-time low for the company.

Leadership upgraded its fiscal 2023 guidance and now sees adjusted FFO coming in between $1.92 to $2.00 (up from $1.92 to $1.98 previously) per share for the full year. As a result, we have increased our 2023 AFFO per share estimate by a penny to $1.96.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	$1.49	$1.77	$1.99	$2.06	$2.04	$2.00	$1.66	$1.29	$1.50	$1.93	***$1.96***	***$2.50***
DPS	$0.96	$1.02	$1.08	$1.14	$1.21	$1.27	$1.14	$0.45	$0.68	$0.82	***$0.96***	***$1.01***
Shares[2]	23.5	58.4	83.5	83.5	83.7	83.7	83.9	84.1	110.6	219.1	***230.0***	***250.0***

Kite Realty has generated healthy long-term adjusted funds from operations growth, but the five year AFFO per share growth has been muted, partly due to the impact of the pandemic and higher interest expense as a result of higher interest rates. Over the last nine and five years, KRG has generated AFFO per share growth of 2.9% and -1.1% annually, respectively. We estimate that KRG can produce 5.0% annual AFFO per share growth in the intermediate term.

Kite Realty will grow by expanding their number of retail properties, the number of states and markets they operate in, and by boosting their properties' annualized base rent per square foot. The Trust will use available cash flow, targeted asset recycling, equity, and debt capital to opportunistically acquire more retail properties and redevelop existing properties with high investment returns. The trust will grow revenue from operating properties by leasing and re-leasing to strong and diverse retail tenants at increasing rental rates. The trust may also pursue strategic joint ventures. The merger with Retail Properties of America Inc. has seen the size and breadth of the Trust grow massively. It also increased

[1] Estimate
[2] In millions

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KRG's geographic footprint in high-growth markets, and enhanced growth opportunities through strong active development projects.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	16.7	14.3	13.4	13.0	10.0	8.0	9.8	9.7	13.5	10.6	***12.0***	***12.0***
Avg. Yld.	3.9%	3.9%	4.0%	4.2%	5.8%	7.8%	7.9%	9.1%	2.9%	3.6%	***4.1%***	***3.4%***

The current P/AFFO of 12.0 is above the ten- and five-year average valuations of 11.9 and 10.3 times AFFO. Given the pandemic has caused difficulties in the retail brick and mortar space, and the five-year average valuation is on a down-trend, we peg KRG's fair valuation at 12.0 times AFFO. As a result, we don't foresee a meaningful impact to total returns from valuation change.

Safety, Quality, Competitive Advantage, & Recession Resiliency

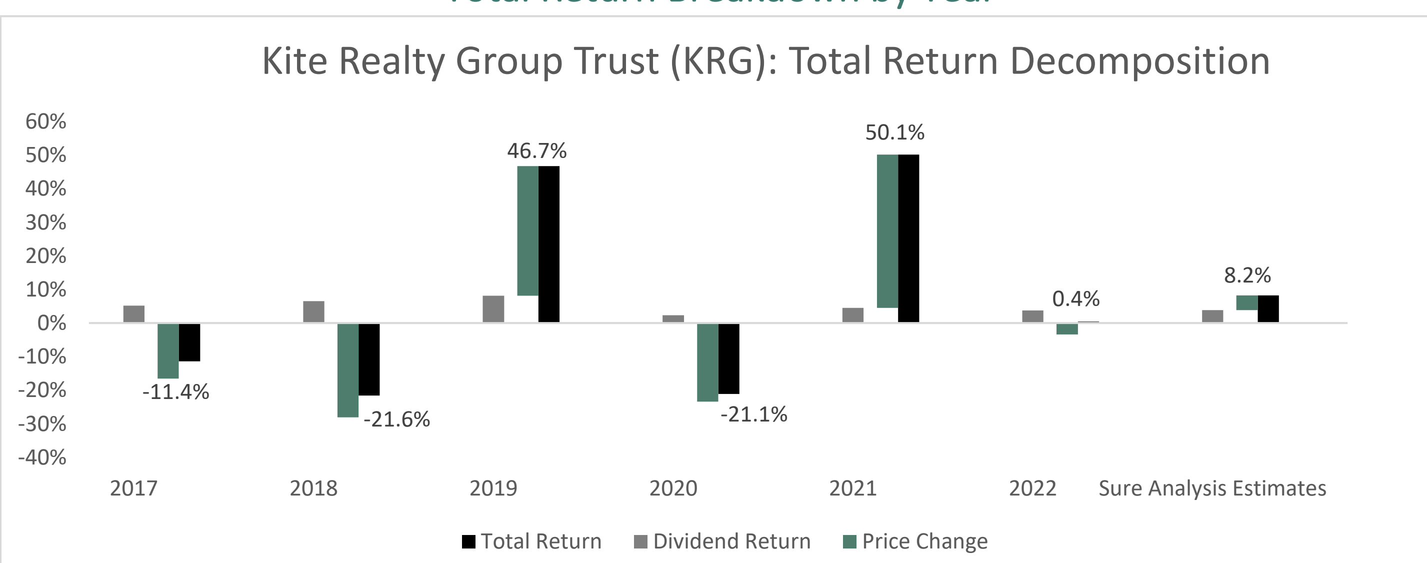
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	64%	58%	54%	55%	59%	64%	69%	35%	45%	42%	***49%***	***40%***

Kite Realty Group slashed the dividend in 2019 after a series of increases, and then further slashed it amidst the COVID pandemic in 2020. As a result, in the most recent years, the payout ratio was fairly covered, but investors cannot count on KRG for consecutively increasing dividends. During the great recession, Kite Realty Group suffered massively as did most real estate related companies. The great recession saw KRG's peak dividend of $3.28 in 2008 fall more than 66% to $0.96 in 2010. The trust does not possess any strong competitive advantage, but it's open air centers held up slightly better than crowded malls given the nature of the pandemic.

Final Thoughts & Recommendation

Kite Realty Group has completed the merger with Retail Properties of America which has seen the scale of the company expand. We believe the Trust can compound AFFO per share at 5.0% annually in the intermediate term. Combined with the 4.1% dividend yield, we estimate annualized total returns of 8.2%. After rallying 12% since our buy rating in our last research report, we are downgrading KRG to a hold on reduced total return potential, as shares now trade at our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	129	260	347	354	359	354	315	267	373	802
Gross Profit	92	191	256	263	266	261	231	190	268	590
Gross Margin	71.4%	73.5%	73.8%	74.4%	74.1%	73.8%	73.2%	71.2%	71.8%	73.6%
SG&A Exp.	8	41	20	23	22	21	28	31	34	55
D&A Exp.	58	124	171	179	175	156	135	131		
Operating Profit	30	29	73	65	72	88	71	30	34	66
Op. Margin	23.0%	11.3%	21.1%	18.5%	20.1%	24.8%	22.4%	11.4%	9.1%	8.2%
Net Profit	-3	-6	27	1	12	-47	-1	-16	-81	-13
Net Margin	-2.2%	-2.2%	7.8%	0.3%	3.3%	-13.1%	-0.2%	-6.1%	-21.6%	-1.6%
Free Cash Flow	-60	-52	77	61	82	95	85	57		
Provision For Tax	0	0	0	1	0	0	0	-1	0	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,764	3,874	3,756	3,656	3,512	3,172	2,649	2,609	7,605	7,342
Cash & Equivalents	18	44	34	20	24	35	31	44	93	116
Accts. Receivable	29	48	51	53	58	58	55	57	68	101
Goodwill & Int.	3	106	95	65	44	26	11	6	---	
Total Liabilities	1,007	1,972	2,030	2,012	1,946	1,759	1,359	1,377	3,678	3,516
Accounts Payable	61	75	81	81	78	86	72	79	---	208
Long-Term Debt	857	1,554	1,724	1,731	1,699	1,543	1,147	1,171	3,151	3,010
Total Equity	651	1,796	1,726	1,644	1,565	1,413	1,289	1,231	3,922	3,767
LTD/E Ratio	1.14	0.82	1.00	1.05	1.09	1.09	0.89	0.95	0.80	0.80

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-0.2%	-0.2%	0.7%	0.0%	0.3%	-1.4%	0.0%	-0.6%	-1.6%	-0.2%
Return on Equity	-0.6%	-0.5%	1.5%	0.1%	0.7%	-3.1%	0.0%	-1.3%	-3.1%	-0.3%
ROIC	-0.2%	-0.2%	0.8%	0.0%	0.4%	-1.5%	0.0%	-0.7%	-1.7%	-0.2%
Shares Out.	23.5	58.4	83.5	83.5	83.7	83.7	83.9	84.1	110.6	219.1
Revenue/Share	5.50	4.45	4.15	4.24	4.29	4.23	3.76	3.17	3.37	3.66
FCF/Share	-2.56	-0.89	0.92	0.73	0.98	1.14	1.01	0.68	---	

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