



Phillips Edison & Company, Inc. (PECO)

Updated August 3rd, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	0.0%	Market Cap:	\$4.7 B
Fair Value Price:	\$25	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/11/2023 ¹
% Fair Value:	142%	5 Year Valuation Multiple Estimate:	-6.7%	Dividend Payment Date:	09/01/2023
Dividend Yield:	3.1%	5 Year Price Target	\$29	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

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 June 30th, 2023, the company had equity interests in 294 shopping centers, including 274 wholly-owned shopping centers and 20 shopping centers owned through one unconsolidated joint venture, which comprised approximately 33.6 million square feet in 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 August 1st, 2023, Phillips Edison & Company reported its Q2 results for the period ending June 30th, 2023. For the quarter, total revenues came in at \$152.1 million, 6.8% higher year-over-year. Same-store NOI improved by 5.3% to \$99 million, new and renewal leasing spreads landed at 25.1% and 17.7%, respectively, while occupancy reached another record at 97.8% - all of which were positive developments.

Along with only marginally higher interest and operating expenses, Nareit FFO for the quarter advanced by 6.7% to \$75.9 million. Nareit FFO per share rose to \$0.58, up from \$0.55 in the period-year period – a decent increase despite share issuances. No properties were acquired during the quarter.

The company raised its FY2023 guidance, expecting FFO per share to land between \$2.27 and \$2.32 (up from \$2.23 to \$2.29 previously). This implies a year-over-year growth of 7% at the midpoint, which we have applied in our estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/shr	\$0.55	\$0.95	\$1.85	\$1.77	\$1.28	\$1.94	\$1.99	\$1.99	\$1.81	\$2.15	\$2.30	\$2.67
DPS	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$2.01	\$0.59	\$1.04	\$1.09	\$1.12	\$1.43
Shares²	23.4	59.8	62.1	62.2	65.5	80.5	109.0	111.2	116.7	130.3	131.9	150.0

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 by 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.

¹ Estimated dates based on past dividend dates.

² 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	15.6	11.0
Avg. Yld.	---	---	---	---	---	---	---	---	3.4%	3.5%	3.1%	4.9%

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 to be quite overvalued. We believe that a P/FFO close to 11 better reflects the stock'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

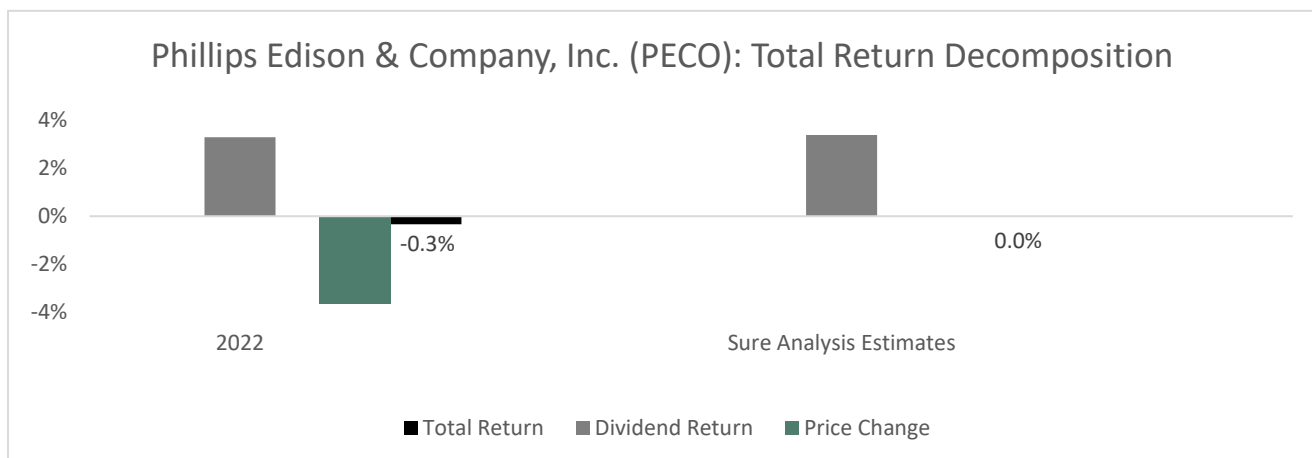
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	365%	212%	109%	114%	157%	104%	101%	30%	57%	51%	49%	54%

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 3.9% and a weighted average maturity of 4.6 years, while 81.3% 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 and the dividend could be entirely offset by valuation headwinds. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	73	188	242	258	312	430	537	498	533	575
Gross Profit	52	130	168	179	214	298	376	344	375	412
Gross Margin	70.5%	69.1%	69.6%	69.5%	68.8%	69.2%	70.0%	69.0%	70.3%	71.7%
SG&A Exp.	4	9	16	38	37	50	49	41	49	45
D&A Exp.	29	77	98	103	130	191	237	225	221	232
Operating Profit	17	42	51	36	47	56	90	77	104	131
Operating Margin	22.9%	22.4%	21.1%	13.8%	15.0%	13.0%	16.8%	15.6%	19.6%	22.8%
Net Profit	(12)	(23)	13	9	(38)	39	(64)	5	15	48
Net Margin	-17.0%	-12.0%	5.5%	3.5%	-12.3%	9.1%	-11.8%	1.0%	2.8%	8.3%
Free Cash Flow	(749)	(651)	(7)	77	67	104	151	147	188	186
Income Tax								0	0	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets		2,151	2,226	2,380	3,526	5,163	4,828	4,679	4,669	4,735
Cash & Equivalents		16	41	8	6	17	18	104	93	5.5
Accounts Receivable				31	47	61	47	47	37	38
Inventories					-	17	6	-	2	0
Goodwill & Int. Ass.				-	84	43	34	36	36	36
Total Liabilities		773	934	1,155	2,047	2,751	2,659	2,663	2,192	2,138
Accounts Payable		49	44	56	103	123	124	177	97	113
Long-Term Debt		650	846	1,056	1,807	2,438	2,354	2,292	1,891	1,896
Shareholder's Equity		1,355	1,267	1,201	1,046	1,998	1,814	1,690	2,150	2,236
LTD/E Ratio		0.48	0.67	0.88	1.73	1.22	1.30	1.36	0.88	0.85

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets			0.6%	0.4%	-1.3%	0.9%	-1.3%	0.1%	0.3%	1.0%
Return on Equity			1.0%	0.7%	-3.4%	2.6%	-3.3%	0.3%	0.8%	2.2%
ROIC			0.6%	0.4%	-1.4%	1.0%	-1.4%	0.1%	0.3%	1.1%
Shares Out.	23.4	59.8	62.1	62.2	65.5	80.5	109.0	111.2	116.7	130.3
Revenue/Share	3.13	3.15	3.99	4.14	4.76	5.35	4.92	4.48	4.57	4.42
FCF/Share	(32.0)	(10.9)	(0.11)	1.24	1.02	1.30	1.39	1.32	1.61	1.43

Disclaimer

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

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