Regency Centers Corporation (REG)

Updated August 5th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$11.4 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	09/13/2023
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	10/04/2023
Dividend Yield:	3.9%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Regency Centers Corporation is a fully integrated real estate investment trust specializing in retail locations whose tenants include highly productive grocers, restaurants, service providers, and various other best-in-class retailers. The trust has full or partial ownership interests in 406 retail properties primarily anchored by market-leading grocery stores. Its properties are principally located in affluent and infill trade areas across the United States and contain approximately 51.3 million square feet of gross leasable area. The trust generates about $1.2 billion in revenues and is based in Jacksonville, Florida.

On August 3rd, 2023, Regency Centers reported its Q2 results for the period ending September 30th, 2023. Revenues rose by 3.9% to $307.1 million. Higher revenues were primarily due to higher leasing and occupancy rates.

At the end of the quarter, the trust's wholly-owned portfolio plus its pro-rata share of co-investment partnerships was 94.6% leased, 30 basis points lower sequentially. Regency's same-property portfolio was 95.2% leased, 10 basis points higher compared to the previous quarter or 70 basis points higher compared to last year.

Nareit FFO grew 1.7% to $176.8 million year-over-year, which was favorably impacted by the collection of receivables reserved during 2020 and 2021 of $1.2 million. On a per-share basis, FFO landed at $1.03 compared to $1.00 in Q2-2022.

Management raised its outlook for fiscal 2023. They expect same-property net operating income growth, excluding termination fees or collection of 2020/2021, to be between 3.0% and 3.5% (up from 2.5% to 3.5% previously). Further, Nareit FFO/share is expected to be between $4.11 and $4.15 (up from $4.07 to $4.15 previously). We have utilized the midpoint of the updated range in our estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/shr	$2.63	$2.91	$2.92	$2.74	$3.10	$3.84	$3.90	$2.95	$4.02	$4.10	***$ 4.13***	***$5.02***
DPS	$1.85	$1.88	$1.94	$2.00	$2.10	$2.22	$2.34	*$2.38*	*$2.41*	*$2.53*	***$2.60***	***$3.09***
Shares[1]	91.4	92.4	94.4	100.9	159.5	169.7	167.5	170.2	171.5	172.3	***172.2***	***180.0***

Regency has achieved a solid track record of modest but gradually higher FFO/share over time. The 10-year and 5-year FFO/share CAGRs stand at 5.1% and 9.3%, respectively. Over the past few years, the trust has performed particularly well despite retail locations suffering against consumers' shift towards e-commerce which was further prominent during the COVID-19 pandemic. The company's largest tenants include grocery majors such as Kroger (3.0% of annualized rent), Whole Foods (2.8%), and TJX (2.6%), which won't go out of business any time soon. Regency's growth prospects appear limited. Still, some are worth noting. Regency's current growth drivers include rising leasing rates, the enchantment of its portfolio value within its development pipeline, as well as the pursuit of additional accretive investment opportunities. While also taking into account higher interest rates, we estimate FFO/share growth of 4% through 2028.

Regency slashed its dividend during the Great Recession and resumed its DPS growth in 2014. Since then, dividends have grown annually. We expect DPS growth of around 3.5% in the medium-term, which underlying FFOs could sustain.

[1] 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	18.3	19.6	23.6	31.4	20.6	17.2	17.2	13.5	16.6	10.7	***16.0***	***14.5***
Avg. Yld.	3.9%	3.3%	2.8%	2.3%	3.3%	3.4%	3.5%	6.0%	3.5%	5.8%	***3.9%***	***4.2%***

Regency has traded a P/FFO close to 15 over the past five years, which we believe is a fair valuation multiple for the stock. We believe that the current multiple of 16 overvalues the stock given the ongoing rise in interest rates and Regency's modest growth prospects. A P/FFO of 14.5 should better suit the stock, as it reflects both the underlying risks of the ongoing macro environment and the trust's qualities, including tenant diversification and high occupancy rates. Regency is currently offering a yield of 3.9%. We expect the yield to advance higher following a multiple compression.

Safety, Quality, Competitive Advantage, & Recession Resiliency

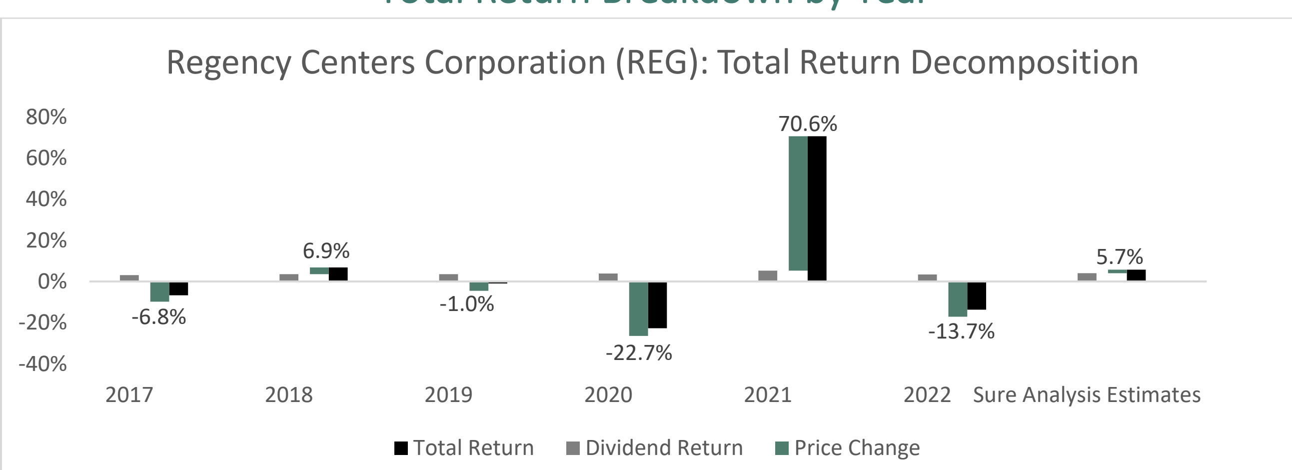
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	70%	65%	66%	73%	68%	58%	60%	81%	60%	62%	***63%***	***61%***

While Regency did cut its dividend back during the Great Financial Crisis, due to the resiliency shown during the pandemic combined with the relatively comfortable 63% payout ratio based on this year's expected FFO/share, we don't expect a dividend cut. That being said, if the trust's financials were to be under pressure again, a cut is not unlikely either. Overall, Regency enjoys some decent qualities, including a quality tenant base of blue-chip companies, with no tenant accounting for more than 3.3% of annualized base rent (Publix). It also maintains a strong balance sheet with a BBB+ credit rating from S&P, has $1.2 billion in liquidity, and features a net debt to EBITDA ratio of 4.9, which is somewhat tolerable. Still, we can't ignore the fact the trust is currently operating in what is likely the least attractive real estate sub-sector, with issues such as missing rental collections already materializing. A prolonged recession is likely to adversely impact the trust's financials and lead to a dividend cut.

Final Thoughts & Recommendation

Regency Centers has shown a robust track record of FFO generation, maintaining solid financials even during the pandemic despite facing significant headwinds during the past year. Management's decent guidance points toward another year of relatively stable performance ahead despite higher interest rates. We forecast annualized total returns of 5.7% through 2028, driven by a growth of 4% in FFO/share, and the 3.9% dividend yield, offset by a 2.0% annual valuation headwind. We rate shares a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	489	538	570	614	984	1,121	1,133	1,016	1,166	1,224
Gross Profit	364	401	425	453	731	815	827	703	839	878
Gross Margin	74.5%	74.6%	74.6%	73.7%	74.2%	72.7%	73.0%	69.2%	72.0%	71.7%
SG&A Exp.	61	60	66	65	68	65	75	75	78	80
D&A Exp.	134	148	147	162	334	360	374	346	303	299
Operating Profit	164	185	205	211	240	380	370	270	452	472
Operating Margin	33.6%	34.3%	35.9%	34.4%	24.3%	33.9%	32.6%	26.5%	38.8%	38.6%
Net Profit	150	187	150	165	176	249	239	45	361	483
Net Margin	30.6%	34.8%	26.3%	26.8%	17.9%	22.2%	21.1%	4.4%	31.0%	39.5%
Free Cash Flow	251	278	286	297	470	610	621	499	659	656
Income Tax	---	(1)	---	---	(10)	---	---	---	---	---

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,914	4,197	4,183	4,489	11146	10945	11132	10937	10790	10,860
Cash & Equivalents	81	114	37	13	45	45	113	376	93	66
Accounts Receivable	57	66	78	85	114	126	143	126	131	160
Goodwill & Int. Ass.	45	52	105	119	811	701	550	363	380	365
Total Liabilities	2,052	2,261	2,100	1,864	4,413	4,494	4,842	4,879	4,683	4,682
Accounts Payable	147	181	165	139	234	225	214	302	322	317
Long-Term Debt	1,855	2,021	1,864	1,642	3,595	3,715	3,920	3,923	3,719	3,727
Shareholder's Equity	1,518	1,582	1,729	2,266	6,692	6,398	6,213	5,985	6,037	6,097
LTD/E Ratio	1.01	1.06	0.91	0.63	0.54	0.58	0.63	0.66	0.62	0.61

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.9%	4.6%	3.6%	3.8%	2.3%	2.3%	2.2%	0.4%	3.3%	4.5%
Return on Equity	10.2%	12.1%	9.1%	8.3%	3.9%	3.8%	3.8%	0.7%	6.0%	8.0%
ROIC	4.0%	4.9%	3.8%	4.0%	2.4%	2.4%	2.4%	0.4%	3.7%	4.9%
Shares Out.	91.4	92.4	94.4	100.9	159.5	169.7	167.5	169.2	170.7	172
Revenue/Share	5.35	5.82	6.01	6.07	6.15	6.59	6.75	6.00	6.83	7.13
FCF/Share	2.74	3.01	3.01	2.93	2.94	3.59	3.70	2.95	3.86	3.82

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