



Tanger Factory Outlet Centers, Inc. (SKT)

Updated August 6th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	3.4%	Market Cap:	\$2.7 B
Fair Value Price:	\$21	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	07/28/2023
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date¹:	08/15/2023
Dividend Yield:	3.6%	5 Year Price Target:	\$24	Years of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Tanger Factory Outlet Centers, Inc. (SKT) is one of the largest owners and operators of outlet centers in the United States and Canada. Tanger operates and owns, or has a stake in, a portfolio of 37 upscale outlet shopping centers. SKT owns properties across 20 states and in Canada, totaling roughly 14 million square feet. SKT leases to over 2,700 stores operated by over 600 different brand name companies. The company is headquartered in Greensboro, North Carolina. Its market capitalization is \$2.7 billion. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

On April 11th, 2023, Tanger announced a 11.4% dividend increase to \$0.98 per share annually.

Tanger reported second quarter 2023 results on August 3rd, 2023. Tanger announced funds from operations (FFO) of \$0.47 per share, up slightly compared to \$0.45 per share in the prior year quarter. Core FFO of \$0.47 per share was higher by two cents compared to Q2 2022. Funds available for distribution (FAD) payout ratio for the quarter was 52%.

As of June 30th, 2023, Tanger had renewals executed or in process for 64.4% of the total portfolio space scheduled to expire during 2023. The consolidated portfolio occupancy rate was 97.1% at quarter-end, much improved compared to 94.8% one year ago. Average tenant sales productivity was down at \$443 per square feet in the trailing twelve months, compared to \$447 per square feet in the twelve months ended March 31st, 2022.

The trust upgraded its fiscal 2023 guidance and estimates diluted FFO per share between \$1.85 to \$1.92. At the midpoint, this represents year-over-year growth of six cents, or 3.3%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	\$1.88	\$1.97	\$2.22	\$2.37	\$2.46	\$2.48	\$2.31	\$1.57	\$1.76	\$1.83	\$1.89	\$2.19
DPS	\$0.89	\$0.95	\$1.10	\$1.26	\$1.35	\$1.39	\$1.42	\$0.71	\$0.72	\$0.80	\$0.88	\$0.92
Shares²	99.0	99.0	100.0	100.0	100.0	98.0	98.0	97.0	106.8	110.4	111.0	115.0

Tanger has seen funds from operations per share shrink in both the trailing five and nine year periods, primarily as a result of the impact the pandemic had on results. AFFO per share had grown steadily prior to the COVID pandemic, however the multiple government-mandated store closures, stay-at-home orders, and expiring leases severely damaged AFFO. The pandemic's impact was so great that the company slashed its dividend by half and ended its 27-year dividend growth streak.

With the pandemic now in the rearview, Tanger is returning to growth, but off a lower comparison base. Tanger announced that it is opening its 37th center in Nashville on October 27th, 2023. It is 290K square feet and 95% leased. We estimate that AFFO per share could grow by 3% per annum.

The Trust has bought back \$20 million of shares in both 2018 and 2019, however bought none in 2020 and could not purchase shares until July 1st, 2021, due to amended debt agreements. We are impressed by the history of SKT's share

¹ Estimate

² In millions

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count as it has remained very stable over the years, which is uncommon for a REIT. We expect the share count to remain stable or increase slightly over the long term, as the effects of the pandemic have pushed the company to issue equity.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	9.7	9	7.6	9.5	9.7	11.1	11.8	12.7	9.8	9.2	12.8	11.0
Avg. Yld.	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	3.6%	4.3%	3.6%	3.8%

The current P/AFFO of 12.8 based on 2023's forecasted AFFO per share represents a premium to the 5-year average of 10.9. As a result, it appears that Tanger is trading above our estimate of fair value, which is near the 5-year average. This implies the potential for a valuation headwind that could negatively impact total returns by about -3.0% annually.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	2023	2028
Payout	47%	48%	50%	53%	55%	56%	61%	45%	41%	44%	47%	42%

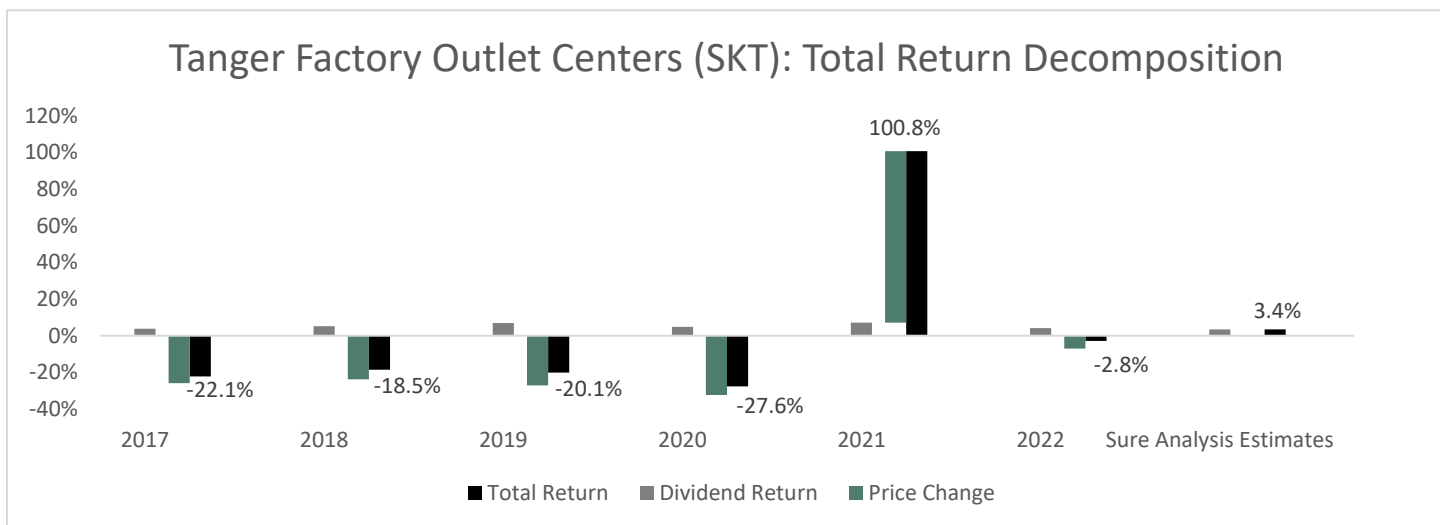
Tanger's average 5-year payout ratio of 49% can be considered safe, especially for a REIT, as this sector is known for its high payout ratios. The forecasted payout of 42% in 2028 is safe and leaves room for dividend growth.

SKT's management has a track record of success spanning over four decades. These 42 years of outlet industry experience, extensive development expertise, and strong retail relationships give them their competitive advantage in the outlet business. SKT went through the Great Recession virtually unscathed as AFFO fell only 2.2% from 2008 to 2010. Outlet centers provide good value for the cost and so this industry should see similar or growing foot traffic and earnings when the population tightens their purse string, however, store closures due to COVID-19 have not made this possible and suffocated their revenue stream in 2020.

Final Thoughts & Recommendation

Tanger was gravely affected by the pandemic and the trust lost their 27-year dividend growth streak. We estimate 3.0% AFFO per share growth and a -3.0% annual headwind due to multiple contraction, in addition to the 4.6% dividend yield. We are forecasting total annualized returns of 3.4%, while the stock trades at a premium to our fair value estimate, thus we rate SKT as a hold at the current price. The overall sentiment in the mall REIT space is negative and has weighed heavily on share prices over the past few years, so we advise caution.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	385	419	439	466	488	495	478	390	427	443
Gross Profit	264	281	293	314	333	334	321	253	286	299
Gross Margin	68.5%	67.2%	66.7%	67.4%	68.2%	67.6%	67.0%	64.8%	67.0%	67.5%
SG&A Exp.	39	44	44	47	44	44	54	48	66	72
D&A Exp.	96	102	104	115	128	132	123	117	110	112
Operating Profit	129	134	144	152	161	158	144	88	110	115
Op. Margin	33.5%	32.1%	32.9%	32.6%	33.0%	32.0%	30.0%	22.6%	25.8%	26.0%
Net Profit	108	74	211	194	68	44	88	-36	9	82
Net Margin	28.0%	17.7%	48.1%	41.6%	13.9%	8.8%	18.4%	-9.3%	2.1%	18.5%
Free Cash Flow	187	189	221	239	253	258	220	165	218	214

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2006	2098	2315	2526	2540	2385	2285	2190	2157	2218
Cash & Equivalents	15	17	22	12	6	9	17	85	161	212
Inventories	0	46								
Goodwill & Int. Ass.	103	80	57	75	50	29	11	-4	-17	-31
Total Liabilities	1449	1574	1709	1821	1928	1879	1829	1831	1658	1704
Long-Term Debt	1328	1443	1552	1688	1764	1713	1570	1568	1397	1428
Total Equity	522	497	575	670	582	480	433	341	478	492
LTD/E Ratio	2.54	2.90	2.70	2.52	3.03	3.57	3.62	4.59	2.92	2.91

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.8%	3.6%	9.6%	8.0%	2.7%	1.8%	3.8%	-1.6%	0.4%	3.8%
Return on Equity	21.4%	14.5%	39.4%	31.1%	10.9%	8.2%	19.2%	-9.4%	2.2%	16.9%
ROIC	6.2%	3.8%	10.2%	8.5%	2.9%	1.9%	4.1%	-1.8%	0.5%	4.3%
Shares Out.	94.2	93.8	94.8	95.3	94.5	93.3	92.8	92.6	102.0	105.6
Revenue/Share	4.08	4.46	4.64	4.89	5.17	5.30	5.15	4.21	4.18	4.19
FCF/Share	1.99	2.01	2.33	2.51	2.68	2.77	2.38	1.78	2.13	2.03

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

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