Brixmor Property (BRX)

Updated November 3rd, 2023 by Kay Ng

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$6.5B
Fair Value Price:	$24	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	01/02/24
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	01/16/24
Dividend Yield:	5.0%	**5 Year Price Target**	$28	**Years Of Dividend Growth[1]:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Brixmor (BRX) was founded in 2003 and is an internally managed REIT that has about 367 retail centers. Its retail properties are positioned in the top 50 metropolitan areas in the United States. It is one of the largest open-air retail landlords domestically. About 70% of its centers are anchored by grocery stores. Brixmor's largest tenants (by annualized base rent) are TJX Companies Inc. (TJX) and The Kroger Co. (KR). No individual tenant contributes more than 3.4% of annualized based rent ("ABR").

Brixmor reported its Q3 2023 results on 10/30/23. For the quarter, it generated marginally higher revenues of $307.3 million (up 0.8%), including rental income growth of 0.8% to $307.1 million. It also reported funds from operations ("FFO") of $152.2 million, 3.0% higher than the prior year's quarter. On a per-share basis, FFO was $0.50, an improvement of 2.0% year over year**.** As well, it saw an increase in same property net operating income ("NOI") of 4.8%. Brixmor has an investment pipeline that is focused on investing in communities where it sees future growth and is also divesting in stagnant areas. For the quarter, it stabilized $18.5 million of reinvestment projects at an average incremental NOI yield of 8% and sold $17.0 million of assets. No acquisitions were made this quarter. The REIT ended the quarter with an in-process reinvestment pipeline that totaled $490.7 million at an expected average incremental NOI yield of 9%. Brixmor also increased its quarterly dividend by 4.8% to $0.2725 per share.

The year-to-date results provide a bigger picture. Revenue rose 2.1% to $928.6 million, including rental income that increased 2.0% to $927.4 million. FFO increased by 4.3% to $460.9 million, while FFO per share climbed 3.4% to $1.52.

Management slightly improved its guidance for 2023 to the following: same property NOI growth of 3.5%-4.0% and FFO-per-share of $2.02 to $2.04. Consequently, we updated our 2023 FFOPS estimate to the new midpoint of $2.03.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFOPS	$1.67	$1.81	$1.97	$2.06	$2.08	$1.89	$1.91	$1.47	$1.75	$1.95	***$2.03***	***$2.41***
DPS	$0.80	$0.73	$0.92	$1.00	$1.06	$1.11	$1.12	$0.57	$0.86	$0.96	***$1.09***	***$1.29***
Shares[1]	230	297	298	304	305	300	298	298	299	302	***302***	***310***

Brixmor restored its quarterly dividends, totaling $0.86 per share for 2021, and has been raising its dividend steadily since. The annualized amount of $1.09 is almost back to the 2019 levels. We estimate a dividend growth rate of about 3.5% through 2028. From 2013 to 2022, Brixmor increased its FFO per share by 1.7% per year. Its leases are signed at below-market rates, which means that when the leases are up, the REIT has the potential to raise prices. BRX's 2022 same-property NOI growth of 6.6% was above average. Management expects the 2023 same-property NOI growth to be lower at 3.5%-4.0%. Brixmor's reinvestment projects can be a growth driver, but they take time to be put into service. Further, the REIT might take it slowly to maintain the company's liquidity and financial position. Eventually, we expect the cash distribution to be restored to previous levels. In 2022, Brixmor's FFOPS finally surpassed the 2019 levels. For now, we maintain a five-year FFOPS growth rate of 3.5% for the stock. We also project that the dividend can increase at a similar rate. We would improve its FFO and dividend estimates if the REIT executes well over time.

[1] Shares in millions; Years of Dividend Growth: Restored a dividend in 2021 and began increasing dividend in Q1 2022.

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
P/FFO	14.1	13.8	17.1	16.1	14.1	12.6	10.2	8.8	13.7	12.5	***10.7***	***11.6***
Avg. Yld.	---	3.6%	2.9%	3.6%	5.0%	6.5%	5.7%	4.4%	2.9%	3.4%	***5.0%***	***4.6%***

Much of the growth that Brixmor experienced in 2022 was from a recovery after the pandemic disruptions in 2020. The retail industry, as a whole, is still experiencing headwinds from online sales. The majority of Brixmor's tenants are anchored by businesses, including food and fitness, which should not be greatly impacted by e-commerce. In a higher interest rate environment, we target a P/FFO of 11.6, which matches the average P/FFO between 2018 and 2022. Brixmor trades at a multiple of 10.7, which seems to be a fair valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

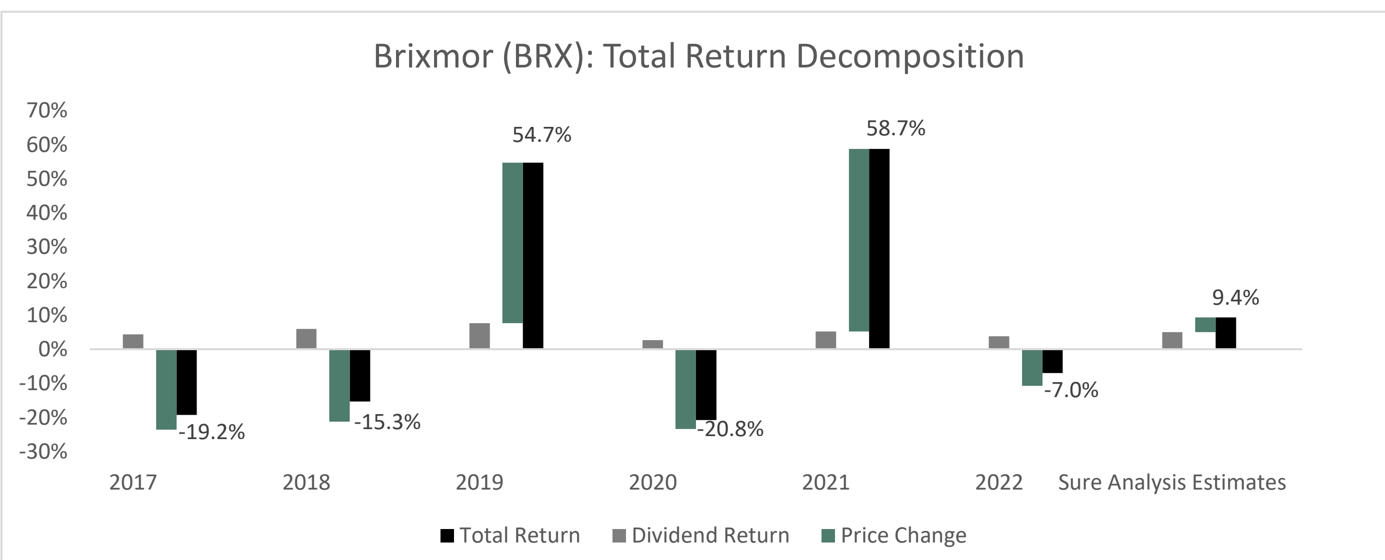
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	40%	47%	49%	51%	59%	59%	39%	49%	49%	***54%***	***54%***

Brixmor has fostered strong relationships with national retailers, and, in return, it receives insights into their strategies and priority access to their expansion plans. Our previous concern that similar real estate companies such as Kimco Realty Corporation (KIM) with a similar portfolio performed poorly during the 2008 crisis came to fruition. In the 2020 economic downturn, Brixmor stock was down 60% from peak to trough and suspended its dividend for a portion of the year. The company has survived partly because it has ~70% of properties that have grocery anchors. At the end of Q3 2023, Brixmor had total liquidity of $1.3 billion and no debt maturities until June 2024. As well, its debt-to-equity ratio was 1.9x, while its debt-to-asset ratio was 65.6%. It has an investment-grade credit rating of BBB- from S&P Global.

Final Thoughts & Recommendation

Brixmor appears to have stabilized from the pandemic impacts. Over the next five years, we estimate total returns of 9.4% in the stock from a 5.0% dividend, FFO-per-share growth rate of 3.5%, and 1.6% from valuation expansion. We rate Brixmor as a "hold" at current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,146	1,237	1,266	1,276	1,283	1,234	1,168	1,053	1,152	1,218
Gross Profit	861	928	956	968	968	921	872	773	854	906
Gross Margin	75.1%	75.0%	75.5%	75.9%	75.4%	74.6%	74.7%	73.4%	74.2%	74.4%
SG&A Exp.	121	80	98	92	92	94	102	98	105	117
D&A Exp.	450	442	418	387	375	352	332	336	327	333
Operating Profit	291	395	430	479	495	465	438	339	422	444
Operating Margin	25.4%	31.9%	33.9%	37.6%	38.6%	37.7%	37.5%	32.2%	36.6%	36.5%
Net Profit	-94	89	194	276	300	366	275	121	270	354
Net Margin	-8.2%	7.2%	15.3%	21.6%	23.4%	29.7%	23.5%	11.5%	23.4%	29.1%
Free Cash Flow	332	479	524	567	552	542	529	443	552	566
Income Tax	1,146	1,237	1,266	1,276	1,283	1,234	1,168	1,053	1,152	

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	10,172	9,682	9,498	9,320	9,154	8,242	8,142	8,342	8,377	8,436
Cash & Equivalents	114	61	70	51	57	42	19	369	297	16
Accounts Receivable	179	182	180	178	232	228	234	240	235	264
Total Liabilities	6,887	6,702	6,578	6,393	6,246	5,406	5,399	5,661	5,659	5,571
Long-Term Debt	5,981	6,023	5,974	5,839	5,676	4,886	4,861	5,167	5,165	5,036
Shareholder's Equity	2,342	2,904	2,870	2,923	2,908	2,836	2,744	2,681	2,718	2,865
LTD/E Ratio	2.55	2.07	2.08	2.00	1.95	1.72	1.77	1.93	1.90	1.76

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-0.9%	0.9%	2.0%	2.9%	3.3%	4.2%	3.4%	1.5%	3.2%	4.2%
Return on Equity	-4.6%	3.4%	6.7%	9.5%	10.3%	12.8%	9.8%	4.5%	10.0%	12.7%
ROIC	-1.0%	1.0%	2.2%	3.1%	3.5%	4.5%	3.6%	1.6%	3.4%	4.5%
Shares Out.	230	297	298	304	305	300	298	298	299	302
Revenue/Share	6.07	5.06	4.15	4.18	4.20	4.08	3.90	3.54	3.86	4.04
FCF/Share	1.76	1.96	1.72	1.86	1.81	1.79	1.77	1.49	1.85	1.88

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