



Federal Realty Investment Trust (FRT)

Updated November 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$91	5 Year CAGR Estimate:	5.7%	Market Cap:	\$7.6B
Fair Value Price:	\$79	5 Year Growth Estimate:	4.2%	Ex-Dividend Date:	12/29/23
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	1/16/24
Dividend Yield:	4.8%	5 Year Price Target	\$97	Years Of Dividend Growth:	56
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Federal Realty is one of the larger real estate investment trusts (REITs) in the United States. The trust was founded in 1962 and concentrates in high-income, densely populated coastal markets in the US, allowing it to charge more per square foot than its competition. Federal Realty trades with a market capitalization of \$7.6 billion today.

Federal Realty Investment Trust (FRT) released its third-quarter earnings report for 2023 on November 2. The report highlighted a significant decrease in net income for common shareholders, which fell from \$1.89 per diluted share in Q3 2022 to \$0.67 in Q3 2023. However, the company's Funds from Operations (FFO) per diluted share showed an increase, rising from \$1.59 in Q3 2022 to \$1.65 in Q3 2023. The operating income for the quarter was \$100.1 million, a noticeable drop from \$191.7 million in the same period of the previous year. Net income available to common shareholders was reported at \$55.0 million, compared to \$154.1 million in Q3 2022. Despite the decline in net income, FRT's FFO for the quarter was \$135.3 million, demonstrating resilience amidst the decreased net income.

Portfolio occupancy as of September 30, 2023, stood at 92.3%, an increase from the previous year, but still impacted negatively by approximately 100 basis points due to the vacating of the final Bed Bath & Beyond leases. The portfolio was 94.0% leased, and the small shop leased rate was 90.7%, indicating both quarter-over-quarter and year-over-year increases. The Board of Trustees declared a regular quarterly cash dividend of \$1.09 per common share, leading to an indicated annual rate of \$4.36 per common share. The company also updated its guidance for 2023, raising its earnings per diluted share guidance to a range of \$2.65 to \$2.73, and FFO per diluted share guidance to \$6.50 - \$6.58.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$4.61	\$4.94	\$5.32	\$5.65	\$5.91	\$6.23	\$6.33	\$4.52	\$5.57	\$6.32	\$6.54	\$8.05
DPS	\$3.02	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.22	\$4.26	\$4.32	\$4.36	\$5.00
Shares¹	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.4	81.6	85

We use funds-from-operations (FFO) instead of earnings-per-share for REITs as the latter is messy and uninformative for this industry. Prior to 2020, Federal Realty's funds-from-operations had not dipped year-over-year at any point in the past decade, a tremendously impressive feat given that the trust operates in the highly cyclical real estate sector.

While growth numbers have not always been impressive, the simple fact that it has such a consistent track record of safety and stability when it comes to funds-from-operations and dividends per share makes it one of the most desirable REITs in the market. Federal Realty's growth moving forward will be comprised of a continuation of higher rent rates on new leases and its impressive development pipeline fueling asset base expansion. Margins are expected to continue to rise slightly as it redevelops pieces of its portfolio and same-center revenue continues to move higher. Moving forward, we expect FFO/share to grow at a mid-single digit pace. We also expect Federal Realty to continue increasing its streak of 56 consecutive years of dividend increases.

¹ Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	23.6	24.3	27.8	27.2	27	22.9	19.6	20.7	16.2	24.6	13.9	12.0
Avg. Yld.	2.8%	2.8%	2.5%	2.6%	2.5%	3.0%	3.3%	3.2%	5.8%	3.3%	4.8%	5.2%

Federal Realty's valuation now stands at 13.9 times our 2023 FFO estimate, which is below our fair value estimate of 15 times FFO. That said, we expect the payout ratio to continue to trend downward moving forward as the company will be focusing on strengthening its portfolio and balance sheet moving forward, so the dividend yield will likely only increase to 5.2% over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66%	67%	68%	68%	67%	65%	66%	93%	76%	68%	67%	62%

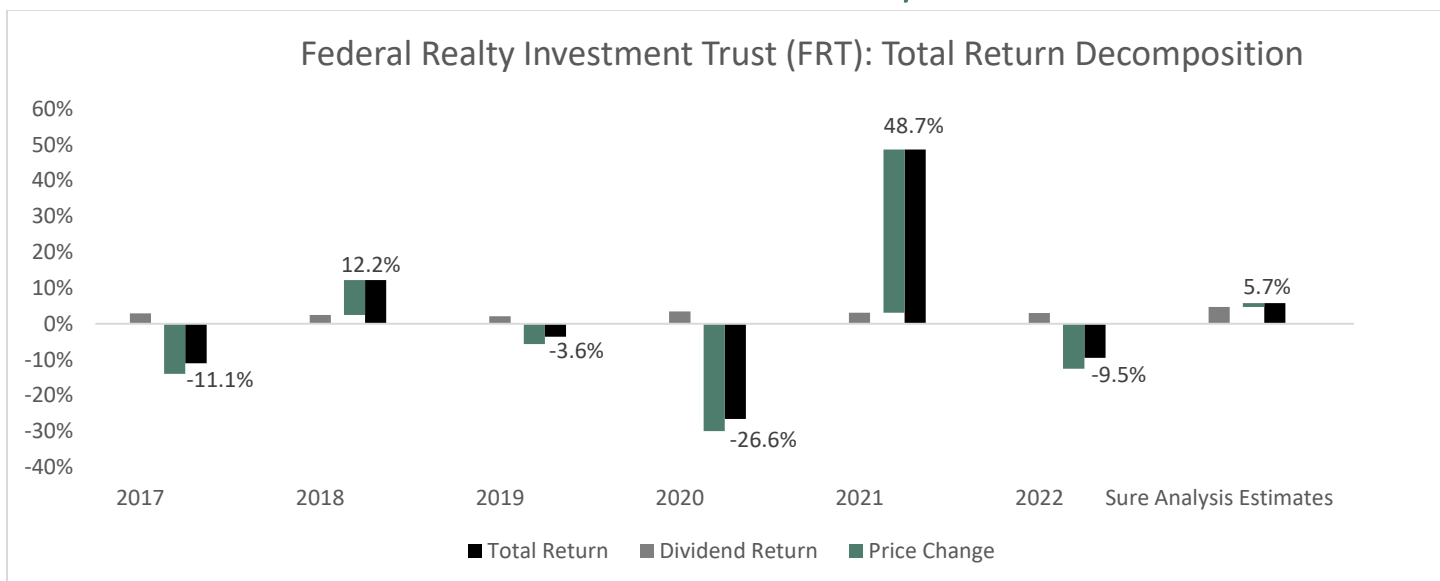
This year's payout ratio is higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see that changing. The preferred mix of dividend payments as a percentage of FFO is two-thirds, and that is where we see the dividend in the coming years. Federal Realty's dividend payment is still considered moderately safe and should continue to be raised for many years to come.

Federal Realty's competitive advantages include its superior development pipeline, its focus on high-income, high-density areas and its decades of experience in running a world-class REIT. These qualities allow it to perform admirably, and even grow through recessions, when some of its lesser peers struggle to keep the lights on.

Final Thoughts & Recommendation

We are forecasting total annualized returns of 5.7% going forward. Federal Realty is a high-quality name that offers not only capital appreciation potential due to per share FFO growth and expected valuation multiple expansion, but a nice dividend yield as well. We rate the REIT as a hold given that its growth pipeline and attractive dividend are complemented by a strong balance sheet.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	637	686	744	802	857	915	936	835	951	1,074
Gross Profit	447	474	511	548	585	628	637	545	635	718
Gross Margin	70.1%	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%	65.3%	66.7%	66.8%
SG&A Exp.	32	32	36	33	36	34	43	42	50	53
D&A Exp.	161	171	175	194	216	244	240	255	280	302
Operating Profit	254	271	300	321	332	350	355	249	305	363
Operating Margin	39.9%	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%	29.8%	32.0%	33.7%
Net Profit	163	165	210	250	290	242	354	132	261	385
Net Margin	25.5%	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%	15.8%	27.5%	35.9%
Free Cash Flow	24	(15)	87	(10)	(60)	148	52	(132)	31	100

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,219	4,547	4,897	5,423	6,276	6,290	6,795	7,608	7,622	8,234
Cash & Equivalents	89	48	21	23	15	64	127	798	162	86
Accounts Receivable	85	93	110	117	210	142	153	160	169	198
Total Liabilities	2,748	2,854	3,115	3,347	3,884	3,822	4,159	5,059	4,959	5,022
Accounts Payable	156	146	147	202	196	178	256	229	235	190
Long-Term Debt	2,250	2,338	2,556	2,727	3,213	3,158	3,357	4,291	4,048	4,329
Shareholder's Equity	1,438	1,594	1,654	1,967	2,107	2,186	2,375	2,304	2,421	2,794
LTD/E Ratio	1.55	1.46	1.54	1.38	1.42	1.35	1.32	1.74	1.57	1.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.0%	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%	1.8%	3.4%	4.9%
Return on Equity	12.0%	10.9%	12.9%	13.8%	14.2%	11.3%	15.5%	5.6%	11.1%	14.8%
ROIC	4.5%	4.2%	5.0%	5.5%	5.6%	4.3%	6.1%	2.1%	3.9%	5.3%
Shares Out.	66.8	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.4
Revenue/Share	9.73	10.17	10.79	11.28	11.87	12.49	12.52	11.06	12.29	13.35
FCF/Share	0.37	(0.22)	1.25	(0.14)	(0.83)	2.02	0.70	(1.75)	0.40	1.24

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

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