Macerich Company (MAC)

Updated November 2nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$10	**5 Year CAGR Estimate:**	15.8%	**Market Cap:**	$2.2 B
Fair Value Price:	$14	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	11/8/2023
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.6%	**Dividend Payment Date:**	12/1/2023
Dividend Yield:	6.8%	**5 Year Price Target**	$17	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Macerich Company is one of the country's leading owners, operators, and developers of major retail real estate. The company is incorporated as a real estate investment trust (REIT) and owns 51 million square feet of real estate consisting primarily of interests in 47 regional shopping centers. Macerich has a significant presence in the West Coast, Arizona, Chicago, and the Metro New York to Washington, DC corridor. The stock trades on the New York Stock Exchange with a market capitalization of $2.2 billion.

In late October, Macerich reported (10/31/23) financial results for the third quarter of fiscal 2023. Same-center net operating income grew 4.8% over the prior year's quarter. The REIT also grew its occupancy from 92.1% to 93.4% but its funds from operations per share (FFOPS) dipped -9%, from $0.46 to $0.42, due to higher interest expense and termination of some leases. The company stated that it enjoys strong leasing volume and reiterated its guidance for FFOPS in 2023 of $1.77-$1.83. We still expect FFOPS close to the mid-point of the guidance.

Macerich was struggling before the pandemic, as it was trying to redevelop the properties it had recaptured from Sears. Even worse, the REIT has been hurt by the pandemic. Due to this downturn, Macerich cut its quarterly dividend twice in 2020, for an -80% total dividend cut. In reference to the pandemic, the worse seems to be behind Macerich but we are concerned over the high debt load of the trust and the secular decline of brick-and-mortar retail stores. Due to high interest rates, the high debt load provides a strong headwind to the REIT via high interest expense.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFOPS	$3.53	$3.54	$3.81	$4.08	$3.83	$3.73	$3.54	$2.16	$2.03	$1.96	***$1.80***	***$2.09***
EPS	$1.06	$10.45	$3.08	$3.52	$1.02	$0.42	$0.68	-$1.58	$0.07	-$0.40	***$0.10***	***$0.40***
DPS	$2.36	$2.51	$2.63	$2.75	$2.87	$2.97	$3.00	$1.15	$0.60	$0.62	***$0.68***	***$0.92***
Shares[1]	140.73	158.20	154.40	143.99	140.99	141.21	141.4	160.6	223.2	215.2	***215.0***	***250.0***

Macerich has been unable to generate meaningful growth in funds from operations per share since 2009. Recent years have been particularly challenging as the company's revenue has actually declined. U.S. retailers closed 12,200 stores in 2020 and 5,079 stores in 2021. Even in 2019, before the pandemic, more than 9,300 stores were shut down. Fewer than half of U.S. malls are expected to survive the ongoing business disruption. The rent per square foot is still growing but it is misleading, as vacancy rates have increased. In 2019, UBS estimated that about 75,000 U.S. stores will close if the market share of online sales rises from 16% to 25%. The market share of online sales currently stands at 20%.

Macerich has tried to defend its business model by reducing its exposure to department stores and increasing its exposure to flagship apparel stores, restaurants, and home furnishing stores. However, the REIT still has significant exposure to the secular decline of traditional retail stores. Even worse, the pandemic is likely to have a long-lasting effect on malls, as it has led many consumers to get used to online purchases for life. We thus expect just 3% average annual growth of funds from operations per share over the next five years off this year's decade-low level.

1. 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
P/FFO	17.3	18.7	21.3	19.2	16.0	15.1	10.0	5.1	8.6	6.3	***5.6***	***8.0***
Yield	3.9%	3.8%	3.2%	3.5%	4.7%	5.3%	8.4%	10.6%	3.4%	5.1%	***6.8%***	***5.5%***

Macerich is trading at a price-to-funds-from-operations (P/FFO) ratio of 5.6, which is much lower than its 10-year average of 13.8. We assume a fair P/FFO ratio of 8.0 for this REIT. This level is much lower than the historical average of Macerich, but it is warranted given the aforementioned challenges. If the stock trades at our fair valuation level in five years, it will enjoy a 7.6% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66.9%	70.9%	69.0%	67.4%	74.9%	79.6%	84.7%	53.2%	29.6%	31.6%	***37.8%***	***44.2%***

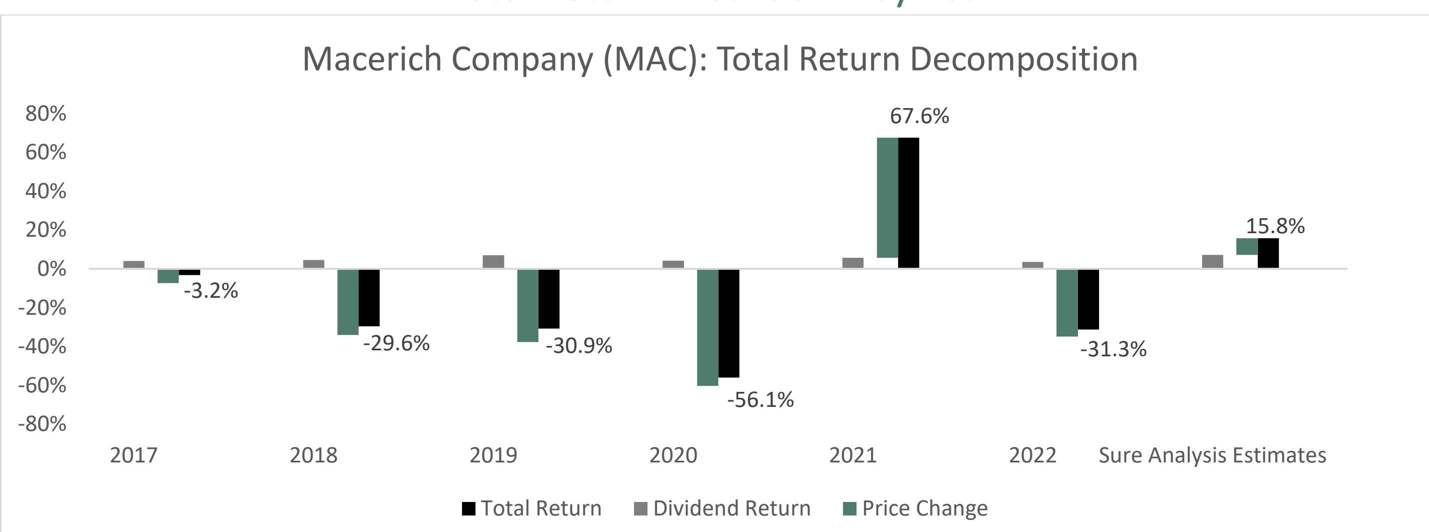
Macerich has properties in densely populated areas, with high barriers to entry. However, its poor performance record does not indicate the existence of a meaningful competitive advantage.

Moreover, Macerich has a high debt load, as its interest expense currently exceeds its operating income and its net debt stands at $4.8 billion, which is more than double the current market cap. The high debt load is a major concern, particularly given the secular decline of this business. Furthermore, the trust has diluted its unitholders significantly over the last decade. This dilution has provided a strong headwind in growth of funds from operations per share while it has also greatly increased the financial burden of the dividend. Macerich cut its dividend in the Great Recession and in 2020 due to the pandemic. Macerich does not appear suitable for Income investors.

Final Thoughts & Recommendation

Macerich has begun to recover from the pandemic but it is now facing a strong headwind due to high interest rates, which have greatly increased the interest expense of the REIT. In the absence of a recession, the stock could offer a 15.8% average annual return over the next five years thanks to 3.0% growth, its 6.8% dividend and a 7.6% valuation tailwind. However, we are concerned over its secular decline, its debt pile and its excessive risk during downturns. Shares receive a hold 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	1029	1105	1288	1041	994	960	927	786	847	859
Gross Profit	606	663	816	635	598	579	560	438	467	469
Gross Margin	58.9%	60.0%	63.3%	61.0%	60.2%	60.3%	60.3%	55.7%	55.1%	54.6%
SG&A Expense	28	29	30	28	28	44	23	30	30	27
D&A Expense	376	379	455	343	340	333	338	326	324	---
Operating Profit	221	255	322	259	235	208	206	88	125	150
Operating Margin	21.5%	23.1%	25.0%	24.8%	23.6%	21.7%	22.2%	11.2%	14.8%	17.5%
Net Profit	420	1499	488	517	146	60	97	(230)	14	(66)
Net Margin	40.8%	136%	37.8%	49.7%	14.7%	6.2%	10.4%	-29.3%	1.7%	-7.7%
Free Cash Flow	422	401	555	430	386	344	355	125	286	---
Income Taxes	-2	-4	-3	1	16	-4	2	(0)	7	1

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9075	13122	11236	9958	9606	9027	8854	9184	8,346	8,094
Cash & Equivalents	70	85	87	94	91	103	100	465	112	100
Total Liabilities	5357	7082	6164	5531	5638	5838	6023	6739	211	5,145
Accounts Payable	77	115	74	61	58	59	51	69	59	63
Long-Term Debt	4583	6292	5261	4966	5170	4982	5210	6038	4,528	4,404
Shareholders' Equity	3359	5640	4715	4106	3682	2950	2632	2257	3,047	2,866
LTD/E Ratio	1.36	1.12	1.12	1.21	1.40	1.69	1.98	2.68	1.49	1.54

Profitability Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.6%	13.5%	4.0%	4.9%	1.5%	0.6%	1.1%	-2.6%	0.2%	-0.8%
Return on Equity	13.1%	33.3%	9.4%	11.7%	3.8%	1.8%	3.5%	-9.4%	0.5%	-2.2%
ROIC	4.9%	14.5%	4.3%	5.2%	1.6%	0.7%	1.2%	-2.8%	0.2%	-0.9%

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