



# Phillips Edison & Company, Inc. (PECO)

Updated November 1<sup>st</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

|                             |      |  |       |                                  |                         |
|-----------------------------|------|--|-------|----------------------------------|-------------------------|
| <b>Current Price:</b>       | \$35 | <b>5 Year CAGR Estimate:</b>               | 0.3%  | <b>Market Cap:</b>               | \$4.56 B                |
| <b>Fair Value Price:</b>    | \$25 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date:</b>         | 11/14/2023 <sup>1</sup> |
| <b>% Fair Value:</b>        | 141% | <b>5 Year Valuation Multiple Estimate:</b> | -6.6% | <b>Dividend Payment Date:</b>    | 12/01/2023              |
| <b>Dividend Yield:</b>      | 3.4% | <b>5 Year Price Target</b>                 | \$29  | <b>Years Of Dividend Growth:</b> | 3                       |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                   | Sell                    |

## Overview & Current Events

Phillips Edison & Company, Inc. is a real estate investment trust that is one of the nation's largest owners and operators of omni-channel grocery-anchored shopping centers. Additionally, the company runs a third-party investment management business providing property management and advisory services to unconsolidated joint ventures and one private fund. As of September 30<sup>th</sup>, 2023, Phillips Edison & Company's wholly-owned portfolio consisted of 275 properties, totaling about 31.4 million square feet, located in 31 states. Phillips Edison & Company generates just over \$575 million in annual revenues, pays dividends on a monthly basis, and is based in Cincinnati, Ohio.

On September 5<sup>th</sup>, 2023, Phillips Edison & Company raised its dividend by 4.5% to a monthly rate of \$0.0975.

On October 31<sup>st</sup>, 2023, Phillips Edison & Company reported its Q3 results for the period ending September 30<sup>th</sup>, 2023. For the quarter, total revenues came in at \$152.5 million, 4.7% higher year-over-year. Same-store NOI improved by 3.2% to \$99.9 million, new and renewal leasing spreads landed at 26.3% and 16.9%, respectively, while occupancy remained at a record 97.8% - all of which were positive developments.

Along with only marginally higher interest and operating expenses, Nareit FFO for the quarter advanced by 0.7% to \$72.5 million. Nareit FFO per share was \$0.58, stable year-over-year. During the quarter, the company acquired one property and one land parcel for a total of \$13.4 million. No properties were sold during the quarter.

The company lowered its FY2023 guidance, expecting FFO per share to land between \$2.23 and \$2.27 (down from \$2.27 to \$2.32 previously). This implies a year-over-year growth of 4.7% at the midpoint, which we have applied in our estimates.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>FFO/shr</b>            | \$0.55 | \$0.95 | \$1.85 | \$1.77 | \$1.28 | \$1.94 | \$1.99 | \$1.99 | \$1.81 | \$2.15 | <b>\$2.25</b> | <b>\$2.61</b> |
| <b>DPS</b>                | \$2.01 | \$2.01 | \$2.01 | \$2.01 | \$2.01 | \$2.01 | \$2.01 | \$0.59 | \$1.04 | \$1.09 | <b>\$1.17</b> | <b>\$1.49</b> |
| <b>Shares<sup>2</sup></b> | 23.4   | 59.8   | 62.1   | 62.2   | 65.5   | 80.5   | 109.0  | 111.2  | 116.7  | 130.3  | <b>132.8</b>  | <b>150.0</b>  |

Phillips Edison's FFO/share generation has been rather robust over the years, despite the company operating in a rather unfavorable real estate sub-sector. By creating omni-channel grocery-anchored shopping experiences, the company's properties enjoy resilient traffic. Future growth is to be powered by accretive acquisitions, high retention rates, and a focus on increasing occupancy. Driving leasing spreads higher, executing redevelopment projects, and implementing rent hikes in new leases should also lead to NOI growth, which should, in turn, lead to increased FFOs.

In 2020, same-store NOI declined by 4.1% in the midst of the pandemic, followed by a rise of 8.2% in 2021 amid NOI normalizing. In 2022, NOI growth was 4.5%, further converging toward its mean. For context, in 2017, 2018, and 2019, the metric rose by 3.5%, 3.7%, and 3.7%, respectively. Overall, based on the company's historical leasing margins, same-store NOI growth, and portfolio composition, we forecast FFO/share growth of 3% through 2028.

<sup>1</sup> Estimated dates based on past dividend dates.

<sup>2</sup> 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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In terms of its dividend, Phillips Edison slashed it during the pandemic, despite producing relatively robust results, as payouts were barely covered. Note that the company was not public at the time. The dividend has been increased three times since. Due to adequate room for growth following the slash, we forecast a DPS CAGR of 5% in the medium-term.

## Valuation Analysis

| Year       | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/FFO | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 16.5 | 14.4 | 15.5 | 11.0 |
| Avg. Yld.  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 3.4% | 3.5% | 3.4% | 5.2% |

While the stock's trading history in the public markets is short, shares have attracted a modest premium relative to its retail real estate peers. This is likely attributable to the company's properties being anchored to grocery stores, resulting in more resilient results, as well as dividends being paid monthly, which income-oriented investors generally appreciate. That said, we find Phillips Edison to be quite overvalued. We believe that a P/FFO close to 11 better reflects the stock's prospects. A higher dividend yield following multiple compression would better match the stock's risk profile as well.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

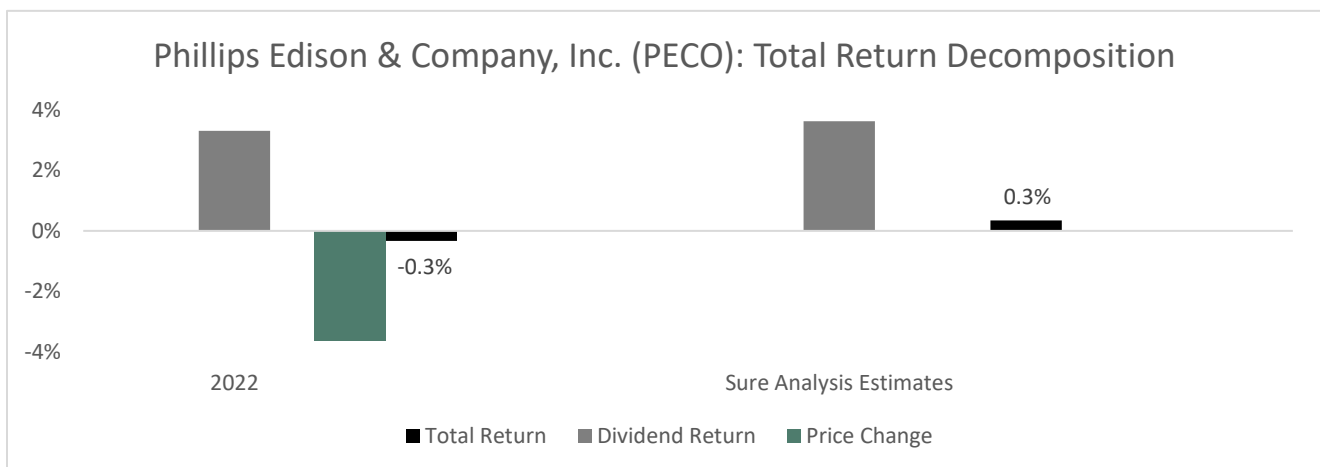
| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 365% | 212% | 109% | 114% | 157% | 104% | 101% | 30%  | 57%  | 51%  | 52%  | 57%  |

Phillips Edison's dividend should be relatively safe at its current levels, due to a healthy payout ratio following the latest cut. The company features several qualities as well, including the ability to retain excellent occupancy rates due to a necessity-based property portfolio, modest rent growth prospects, and noteworthy cash flow diversification. Further, the company's outstanding debt has a weighted average interest rate of 4.1% and a weighted average maturity of 4.4 years, while 81.6% of the total debt was fixed rate debt. That said, we believe that overall growth in the retail real estate space should be rather limited. Additionally, while the company's metrics should remain relatively robust compared to its average peer amid its tenants focusing on necessity-based goods and services, it's still vulnerable to a recession.

## Final Thoughts & Recommendation

Phillips Edison & Company is a rather noteworthy retail real estate REIT with a number of qualities. However, we believe that potential returns from the growth in FFO/share and the dividend could be entirely offset by valuation headwinds. The frequency of payouts is attractive, but we would require a higher projected return to hold the stock. PECO earns a sell 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          | 73     | 188    | 242   | 258   | 312    | 430   | 537    | 498   | 533   | 575   |
| Gross Profit     | 52     | 130    | 168   | 179   | 214    | 298   | 376    | 344   | 375   | 412   |
| Gross Margin     | 70.5%  | 69.1%  | 69.6% | 69.5% | 68.8%  | 69.2% | 70.0%  | 69.0% | 70.3% | 71.7% |
| SG&A Exp.        | 4      | 9      | 16    | 38    | 37     | 50    | 49     | 41    | 49    | 45    |
| D&A Exp.         | 29     | 77     | 98    | 103   | 130    | 191   | 237    | 225   | 221   | 232   |
| Operating Profit | 17     | 42     | 51    | 36    | 47     | 56    | 90     | 77    | 104   | 131   |
| Operating Margin | 22.9%  | 22.4%  | 21.1% | 13.8% | 15.0%  | 13.0% | 16.8%  | 15.6% | 19.6% | 22.8% |
| Net Profit       | (12)   | (23)   | 13    | 9     | (38)   | 39    | (64)   | 5     | 15    | 48    |
| Net Margin       | -17.0% | -12.0% | 5.5%  | 3.5%  | -12.3% | 9.1%  | -11.8% | 1.0%  | 2.8%  | 8.3%  |
| Free Cash Flow   | (749)  | (651)  | (7)   | 77    | 67     | 104   | 151    | 147   | 188   | 186   |
| Income Tax       |        |        |       |       |        |       |        | 0     | 0     | 0     |

## Balance Sheet Metrics

| Year                 | 2013 | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|----------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets         |      | 2,151 | 2,226 | 2,380 | 3,526 | 5,163 | 4,828 | 4,679 | 4,669 | 4,735 |
| Cash & Equivalents   |      | 16    | 41    | 8     | 6     | 17    | 18    | 104   | 93    | 5.5   |
| Accounts Receivable  |      |       |       | 31    | 47    | 61    | 47    | 47    | 37    | 38    |
| Inventories          |      |       |       |       | -     | 17    | 6     | -     | 2     | 0     |
| Goodwill & Int. Ass. |      |       |       | -     | 84    | 43    | 34    | 36    | 36    | 36    |
| Total Liabilities    |      | 773   | 934   | 1,155 | 2,047 | 2,751 | 2,659 | 2,663 | 2,192 | 2,138 |
| Accounts Payable     |      | 49    | 44    | 56    | 103   | 123   | 124   | 177   | 97    | 113   |
| Long-Term Debt       |      | 650   | 846   | 1,056 | 1,807 | 2,438 | 2,354 | 2,292 | 1,891 | 1,896 |
| Shareholder's Equity |      | 1,355 | 1,267 | 1,201 | 1,046 | 1,998 | 1,814 | 1,690 | 2,150 | 2,236 |
| LTD/E Ratio          |      | 0.48  | 0.67  | 0.88  | 1.73  | 1.22  | 1.30  | 1.36  | 0.88  | 0.85  |

## Profitability & Per Share Metrics

| Year             | 2013   | 2014   | 2015   | 2016 | 2017  | 2018 | 2019  | 2020  | 2021  | 2022  |
|------------------|--------|--------|--------|------|-------|------|-------|-------|-------|-------|
| Return on Assets |        |        | 0.6%   | 0.4% | -1.3% | 0.9% | -1.3% | 0.1%  | 0.3%  | 1.0%  |
| Return on Equity |        |        | 1.0%   | 0.7% | -3.4% | 2.6% | -3.3% | 0.3%  | 0.8%  | 2.2%  |
| ROIC             |        |        | 0.6%   | 0.4% | -1.4% | 1.0% | -1.4% | 0.1%  | 0.3%  | 1.1%  |
| Shares Out.      | 23.4   | 59.8   | 62.1   | 62.2 | 65.5  | 80.5 | 109.0 | 111.2 | 116.7 | 130.3 |
| Revenue/Share    | 3.13   | 3.15   | 3.99   | 4.14 | 4.76  | 5.35 | 4.92  | 4.48  | 4.57  | 4.42  |
| FCF/Share        | (32.0) | (10.9) | (0.11) | 1.24 | 1.02  | 1.30 | 1.39  | 1.32  | 1.61  | 1.43  |

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

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