



Kite Realty Group Trust (KRG)

Updated February 15th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	9.8%	Market Cap:	\$4.7 B
Fair Value Price:	\$24	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	04/04/2024 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	04/12/2024 ¹
Dividend Yield:	4.6%	5 Year Price Target:	\$30	Years of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Kite Realty Group Trust is a full-service, vertically integrated real estate investment trust that owns mainly open-air community shopping centers across the United States. The trust has a diverse portfolio of community, neighborhood, and lifestyle centers. Kite Realty Group trades on the NYSE under the ticker symbol KRG and is headquartered in Indianapolis, Indiana. The Trust has a market capitalization of \$4.7 billion. Kite Realty Group Trust owns 180 operating retail properties comprising 28.1 million square feet.

On February 7th, 2024, Kite Realty declared a \$0.25 quarterly distribution, which was 4% higher year-over-year.

Kite Realty Group reported fourth quarter 2023 results on February 13th, 2024. The trust reported AFFO of \$111 million, or \$0.50 per diluted common share compared to \$112 million, or \$0.50 per share in fourth quarter 2022. KRG's same-property net operating income (NOI) rose by 2.8%.

During the quarter, the trust executed 192 new and renewal leases, totaling 1.3 million square feet. Annualized base rent (ABR) per square foot for the retail portfolio rose 3.4% year-over-year to \$20.70. The economic occupancy percentage of 91.2% compares unfavorably to the prior year quarter's 92.5%. KRG's net-debt-to-Adjusted EBITDA was 5.1X at quarter end.

Leadership initiated fiscal 2024 guidance and sees adjusted FFO coming in between \$2.00 to \$2.06 per share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$1.77	\$1.99	\$2.06	\$2.04	\$2.00	\$1.66	\$1.29	\$1.50	\$1.93	\$2.03	\$2.03	\$2.47
DPS	\$1.02	\$1.08	\$1.14	\$1.21	\$1.27	\$1.14	\$0.45	\$0.68	\$0.82	\$0.96	\$1.00	\$1.05
Shares²	58.4	83.5	83.5	83.7	83.7	83.9	84.1	110.6	219.1	219.4	220.0	250.0

Kite Realty has generated positive long-term adjusted funds from operations growth, but the five year AFFO per share growth has been muted, partly due to the impact of the pandemic and higher interest expense as a result of higher interest rates. Over the last nine and five years, KRG has generated AFFO per share growth of 1.5% and 0.3% annually, respectively. We estimate that KRG can produce 4.0% annual AFFO per share growth over the next five years.

Kite Realty will grow by expanding its number of retail properties, the number of states and markets it operates in, and by boosting its properties' annualized base rent per square foot. The trust will use available cash flow, targeted asset recycling, equity, and debt capital to opportunistically acquire more retail properties and redevelop existing properties with high investment returns. The trust will grow revenue from operating properties by leasing and re-leasing to strong and diverse retail tenants at increasing rental rates. The trust may also pursue strategic joint ventures. The merger with Retail Properties of America Inc. has seen the size and breadth of the trust grow massively. It also increased KRG's geographic footprint in high-growth markets, and enhanced growth opportunities through strong active development projects.

¹ Estimate

² In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	14.3	13.4	13.0	10.0	8.0	9.8	9.7	13.5	10.6	10.6	10.7	12.0
Avg. Yld.	3.9%	4.0%	4.2%	5.8%	7.8%	7.9%	9.1%	2.9%	3.6%	4.3%	4.6%	3.5%

The current P/AFFO of 10.7 is below the ten- and five-year average valuations of 11.3 and 10.8 times AFFO. Given the pandemic and transition to online shopping has exacerbated challenges in the retail brick and mortar space, and the five-year average valuation is on a down-trend, we peg KRG's fair valuation to be 12.0 times AFFO, which implies the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

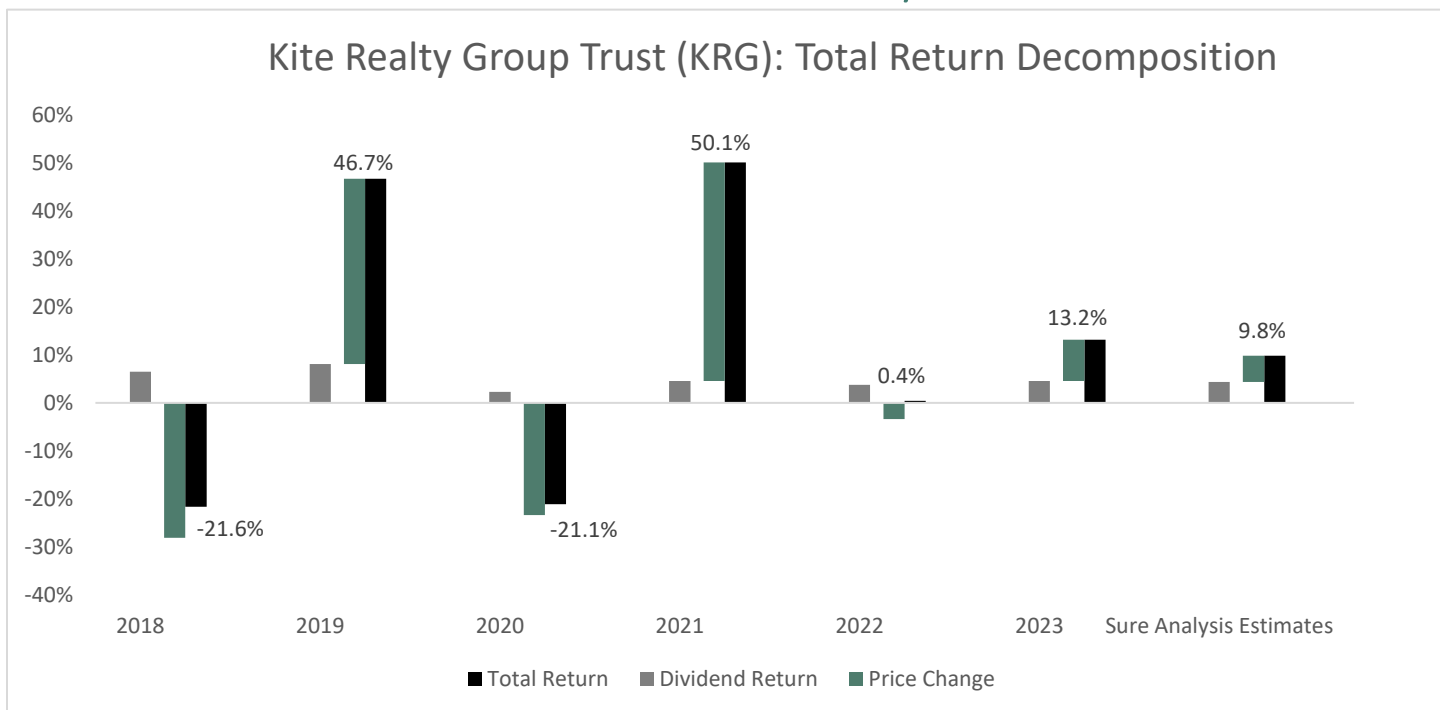
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	58%	54%	55%	59%	64%	69%	35%	45%	42%	47%	49%	43%

Kite Realty Group slashed its dividend in 2019 after a series of increases, and then further slashed it amidst the COVID pandemic in 2020. As a result, in the most recent years, the payout ratio was fairly covered, but investors cannot count on KRG for consecutively increasing dividends. During the great recession, Kite Realty Group suffered massively as did most real estate related companies. The great recession saw KRG's peak dividend of \$3.28 in 2008 fall more than 66% to \$0.96 in 2010. The trust does not possess any strong competitive advantage, but it's open air centers held up slightly better than crowded malls given the nature of the pandemic.

Final Thoughts & Recommendation

Kite Realty Group has completed the merger with Retail Properties of America which has seen the scale of the company expand. We believe the Trust can compound AFFO per share at 4.0% annually in the intermediate term. Combined with the 4.6% dividend yield, we estimate annualized total returns of 9.8%. KRG earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	260	347	354	359	354	315	267	373	802	823
Gross Profit	191	256	263	266	261	231	190	268	590	613
Gross Margin	73.5%	73.8%	74.4%	74.1%	73.8%	73.2%	71.2%	71.8%	73.6%	74.5%
SG&A Exp.	41	20	23	22	21	28	31	34	55	56
D&A Exp.	124	171	179	175	156	135	131			
Operating Profit	29	73	65	72	88	71	30	34	66	130
Op. Margin	11.3%	21.1%	18.5%	20.1%	24.8%	22.4%	11.4%	9.1%	8.2%	15.8%
Net Profit	-6	27	1	12	-47	-1	-16	-81	-13	48
Net Margin	-2.2%	7.8%	0.3%	3.3%	-13.1%	-0.2%	-6.1%	-21.6%	-1.6%	5.8%
Free Cash Flow	-52	77	61	82	95	85	57			
Provision For Tax	0	0	1	0	0	0	-1	0	0	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,874	3,756	3,656	3,512	3,172	2,649	2,609	7,605	7,342	6,944
Cash & Equivalents	44	34	20	24	35	31	44	93	116	36
Accts. Receivable	48	51	53	58	58	55	57	68	101	113
Goodwill & Int.	106	95	65	44	26	11	6	---		
Total Liabilities	1,972	2,030	2,012	1,946	1,759	1,359	1,377	3,678	3,516	3,300
Accounts Payable	75	81	81	78	86	72	79	---	208	
Long-Term Debt	1,554	1,724	1,731	1,699	1,543	1,147	1,171	3,151	3,010	2,829
Total Equity	1,796	1,726	1,644	1,565	1,413	1,289	1,231	3,922	3,767	3,568
LTD/E Ratio	0.82	1.00	1.05	1.09	1.09	0.89	0.95	0.80	0.80	0.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.2%	0.7%	0.0%	0.3%	-1.4%	0.0%	-0.6%	-1.6%	-0.2%	0.7%
Return on Equity	-0.5%	1.5%	0.1%	0.7%	-3.1%	0.0%	-1.3%	-3.1%	-0.3%	1.3%
ROIC	-0.2%	0.8%	0.0%	0.4%	-1.5%	0.0%	-0.7%	-1.7%	-0.2%	0.7%
Shares Out.	58.4	83.5	83.5	83.7	83.7	83.9	84.1	110.6	219.1	219.7
Revenue/Share	4.45	4.15	4.24	4.29	4.23	3.76	3.17	3.37	3.66	3.75
FCF/Share	-0.89	0.92	0.73	0.98	1.14	1.01	0.68	---		

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

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