Simon Property Group (SPG)

Updated February 6th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$137	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$51.3 B
Fair Value Price:	$126	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/07/24
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	03/29/24
Dividend Yield:	5.7%	**5 Year Price Target**	$146	**Years of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Simon Property Group is a real estate investment trust (REIT) that was formed in 1993. The trust focuses on retail properties, mainly in the U.S., with the goal of being the premier destination for high-end retailers and their customers. The trust has interests in 230 income-producing properties comprising 183 million square feet in North America, Asia, and Europe. Simon also owns an 84% non-controlling interest in the Taubman Realty Group, which has an interest in 24 malls in the U.S. and Asia. Simon produces about $5.7 billion in annual revenue and has a market capitalization of $51.3 billion. The company also has a 22.4% ownership interest in Klépierre, a publicly traded, Paris-based REIT that owns shopping centers in 14 European countries.

On February 5th, 2024, Simon increased its dividend by 2.6% to a quarterly rate of $1.95. On a year-over-year basis, the increase was by 8.3%.

On the same day, Simon reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, total revenues were $1.53 billion, 9.3% higher than the comparable period last year. Higher revenues were powered by the continued recovery in retail real estate, strong leasing momentum, and elevated occupancy levels.

Specifically, portfolio NOI, which includes domestic properties, international properties, and Simon's investment in Taubman Realty Group, increased by 7.2% compared to the prior year. Further, occupancy stood at 95.8% compared with 94.9 % in Q4-2022. FFO/share rose by 8.5% to $3.69. For the year, FFO/share rose by 4.7% to $12.51

For fiscal 2024, management believes that higher interest expenses due to higher interest rates are going to pressure FFO/share despite forecasting domestic property NOI growth of at least 3%. Thus, they see FFO/share landing between $11.85 and $12.10. We have utilized the midpoint of this range in our estimates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/Shr	$8.90	$9.86	$10.49	$11.21	$12.13	$12.37	$9.11	$11.94	$11.95	$12.51	***$11.98***	***$13.89***
DPS	$5.15	$6.05	$6.50	$7.15	$7.90	$8.30	$6.00	$5.85	$6.90	$7.45	***$7.80***	***$9.04***
Shares[1]	311.0	309.0	313.0	311.0	309.0	306.0	308.7	328.5	327.8	326.8	***326.8***	***320.0***

Simon's FFO history has been quite resilient, seeing only a minor dip in profitability during the Great Recession and the COVID-19 pandemic. Simon's focus on high-end retailing has proven an immense source of strength in recent years, and we see that steady performance continuing. However, given Simon's already dominant position in the retail sector, the seemingly unstoppable rise of e-commerce crimping demand for physical stores, and how mature the current economic cycle is, it looks like Simon and other retail REITs will have a harder time with future FFO growth. That said, Simon is still the best retail REIT in the market by many metrics. Its occupancy rates remain high, and the end of 2023 it had a base minimum rent of $56.82 per square foot on average (up 3.1% YoY), which is tremendously high for the retail space. Simon has built a niche with high-end retailers over the years such that it has the most desirable spaces and developments and thus sees a virtuous combination of high occupancy and leasing rates. Its recent investment in Taubman seems to be stabilizing as well, with the company likely able to unlock operational efficiencies going forward.

[1] In millions

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Simon was forced to cut its dividend at the start of 2020 to withstand its weaker performance caused by the pandemic, though management has raised it eight times since then. We continue to expect FFO/share and DPS growth of 3% going forward, reflecting the REIT's potential for growth in its square feet and lease rates while still remaining prudent against a shaky macro environment filled with uncertainty.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	19	19.1	19.2	15.1	13.9	11.9	8.8	11.6	9.9	8.7	***11.4***	***10.5***
Avg. Yld.	3.0%	3.2%	3.2%	4.2%	4.7%	5.6%	6.5%	4.3%	5.8%	6.9%	***5.7%***	***6.2%***

While Simon's historical average valuation of 13.7 times FFO suggests the current 11.4 times FY2024 projected FFO is below par, we don't believe shares are undervalued. Elevated interest rates are currently restraining the company's growth prospects. Thus, our fair P/FFO stands at 10.5. The stock's current yield of 5.7% is higher than its decade average of 4.7%, which income investors are likely to appreciate, especially given the post-COVID dividend growth trend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	58%	61%	62%	64%	65%	67%	66%	49%	58%	60%	***65%***	***65%***

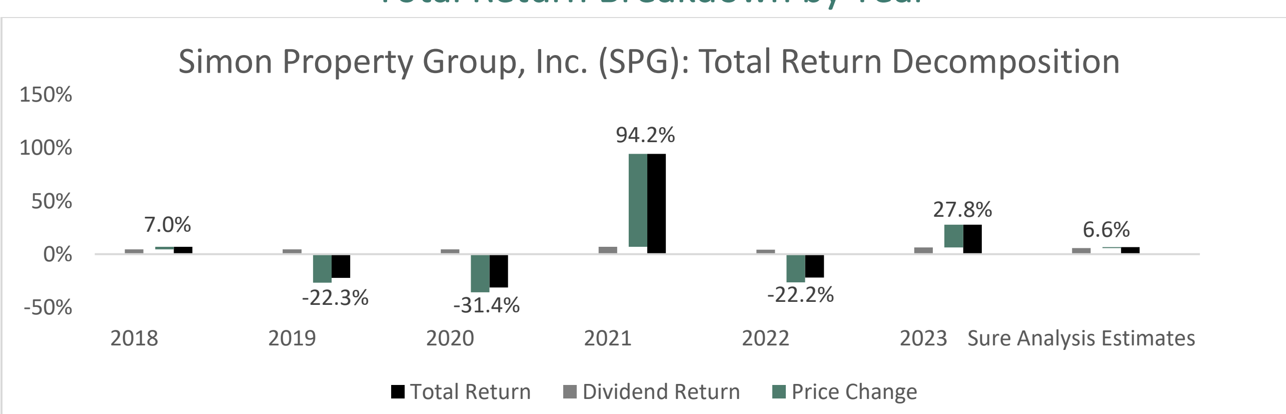
Simon's quality metrics have been very stable in the past decade as the company has kept operating metrics such as balance sheet leverage and unsecured interest coverage (3.3X) in a fairly narrow range. Profitability should improve further over time, with Simon's capacity to raise rent remaining robust. The payout ratio remains at a very safe range.

Simon's competitive advantage is in its world-class portfolio of properties that allow it to charge industry-best leasing rates. Another advantage is its low cost of capital that comes from its A-rated balance sheet, enabling it to invest in ways that competitors cannot afford to. That being said, it is not immune to recessions, as proven by its dividend cut during 2020 amid, admittedly, a black swan event for the industry. However, despite the cut, Simon's operations have held up fairly well, and have almost fully recovered already.

Final Thoughts & Recommendation

Overall, we forecast Simon to produce 6.6% total annualized returns in the coming years, driven by a starting yield of 5.7%, modest growth, and soft valuation headwinds. We believe that Simon's shares are slightly overvalued, yet offer decent total return prospects. Simon's healthy metrics, world-class management, high-quality real estate portfolio, and successful acquisition of Taubman should keep translating to robust financials. We rate Simon 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	4544	4871	5266	5435	5539	5658	5,755	4,608	5,117	5,291
Gross Profit	3706	3988	4306	4464	4559	4650	4,734	3,720	4,146	4,290
Gross Margin	81.6%	81.9%	81.8%	82.1%	82.3%	82.2%	82.2%	80.7%	81.0%	81.1%
SG&A Exp.	319	355	350	366	338	334	185	121	145	143
D&A Exp.	1333	1286	1239	1328	1357	1350	1,394	---	1,326	1,292
Operating Profit	2189	2385	2669	2721	2802	2911	2,908	1,972	2,431	2,584
Operating Margin	48.2%	49.0%	50.7%	50.1%	50.6%	51.5%	50.5%	42.8%	47.5%	48.8%
Net Profit	1320	1409	1828	1839	1948	2440	2,102	1,113	2,250	2,140
Net Margin	29.0%	28.9%	34.7%	33.8%	35.2%	43.1%	36.5%	24.2%	44.0%	40.4%
Free Cash Flow	1860	1934	2004	2574	2862	2969	2,932	---	3,109	3,117
Income Tax	40	28	20	30	23	37	30	-4.6	157	84

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	33325	29532	30565	31104	32258	30686	31232	34790	33780	33,010
Cash & Equivalents	1691	612	701	560	1482	514	669	1012	534	622
Acc. Receivable	520	580	625	665	743	764	832	1237	920	824
Goodwill & Int.	376	312	276	285	209	151	96	---	53	38
Total Liabilities	26502	23581	25349	26144	28019	26889	28320	31310	29920	29190
Accounts Payable	1223	1260	1324	1214	1269	1317	1391	1312	1433	1,492
Long-Term Debt	22670	20853	22417	22977	24564	23238	24096	26720	25260	24,900
Total Equity	5805	5049	4428	4267	3643	3254	2484	2997	3320	3,097
LTD/E Ratio	3.88	4.09	5.01	5.33	6.66	7.05	9.54	8.79	7.51	7.93

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.0%	4.5%	6.1%	6.0%	6.1%	7.8%	6.8%	3.4%	6.6%	6.4%
Return on Equity	22.6%	26.0%	38.6%	42.3%	49.3%	70.8%	73.3%	40.6%	71.2%	66.7%
ROIC	4.4%	5.0%	6.7%	6.6%	6.9%	8.7%	7.8%	3.9%	7.6%	7.3%
Shares Out.	310	311	309	313	311	309	306	309	329	327.82
Revenue/Share	14.65	15.68	16.98	17.38	17.78	18.27	18.69	149.2	15.57	16.14
FCF/Share	5.99	6.22	6.46	8.23	9.19	9.59	9.52	---	9.46	9.51

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