Kite Realty Group Trust (KRG)

Updated July 31st, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$5.7 B
Fair Value Price:	$25	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	10/08/2024[1]
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	10/16/2024[1]
Dividend Yield:	4.2%	**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 $5.7 billion. Kite Realty Group Trust owns or has an interest in 178 operating retail properties comprising 27.6 million square feet.

On July 29th, 2024, Kite Realty declared a $0.26 quarterly distribution, which was 8.3% higher year-over-year.

Kite Realty Group reported second quarter 2024 results on July 30th, 2024. The trust reported FFO of $118 million, or $0.53 per diluted common share compared to $114 million, or $0.51 per share in second quarter 2023. KRG's same-property net operating income (NOI) rose by 1.8%.

During the quarter, the trust executed 160 new and renewal leases, totaling 1.2 million square feet. Annualized base rent (ABR) per square foot for the retail portfolio rose 3.5% year-over-year to $20.90. However, its economic occupancy percentage of 91.6% was lower than the prior year quarter's 92.3%. KRG's net debt-to-Adjusted EBITDA ratio was 4.8X at quarter-end.

Leadership narrowed its fiscal 2024 guidance and now sees adjusted FFO coming in between $2.04 to $2.08 (from $2.02 to $2.08 previously) 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	***$2.06***	***$2.51***
DPS	$1.02	$1.08	$1.14	$1.21	$1.27	$1.14	$0.45	$0.68	$0.82	$0.96	***$1.04***	***$1.09***
Shares[2]	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. It 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.

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[1] Estimate

[2] 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	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	***12.1***	***12.0***
Avg. Yld.	3.9%	4.0%	4.2%	5.8%	7.8%	7.9%	9.1%	2.9%	3.6%	4.3%	***4.2%***	***3.6%***

The current P/AFFO of 12.1 is above 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 fair value for KRG stock at 12.0 times AFFO, which implies the potential for a miniscule valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

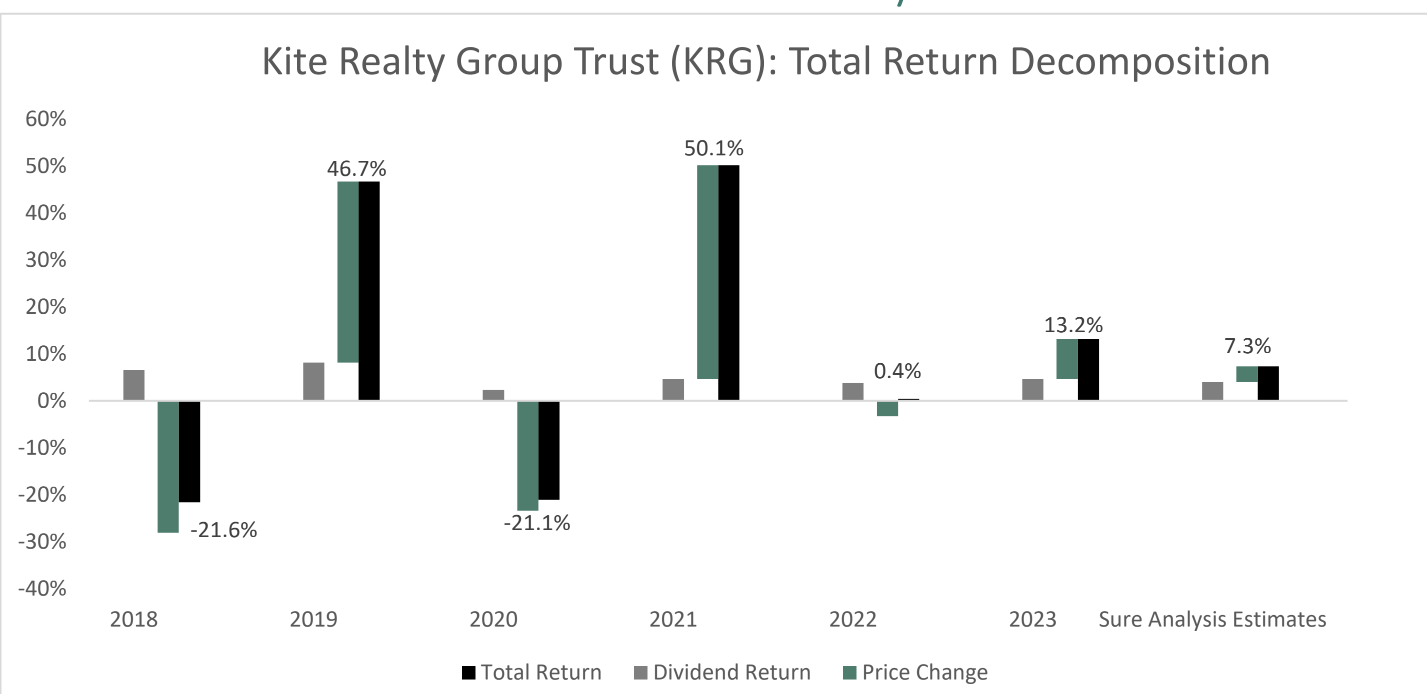
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	58%	54%	55%	59%	64%	69%	35%	45%	42%	47%	***50%***	***44%***

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 recent years, the payout ratio was fairly covered, but investors cannot expect KRG to consistently increase 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. The share price of Kite Realty Group has soared 19% since we rated it a buy in our last research report, in May. It could still offer annualized total returns of 7.3% over the next five years, stemming from 4.0% annual AFFO per share growth, and the 4.7% starting yield, partly offset by -0.2% multiple compression. 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.