



Simon Property Group (SPG)

Updated November 13th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$179	5 Year CAGR Estimate:	3.2%	Market Cap:	\$67.2 B
Fair Value Price:	\$141	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/09/24
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date:	12/30/24
Dividend Yield:	4.7%	5 Year Price Target	\$164	Years of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Sell

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 196 income-producing properties which consist of 93 malls, 70 Premium Outlets, 14 Mills, six lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. Simon also owns an 84% non-controlling interest in the Taubman Realty Group, which has an interest in 22 malls in the U.S. and Asia. Simon produces about \$5.7 billion in annual revenue and has a market capitalization of \$67.2 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 November 1st, 2024, Simon increased its dividend by 2.4% to a quarterly rate of \$2.10.

On the same day, Simon reported its Q3 results for the period ending September 30th, 2024. For the quarter, total revenues were \$1.48 billion, 4.9% 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 5.0% compared to the prior year. Further, occupancy stood at 96.2% compared with 95.2 % in Q3-2023. FFO/share rose by two cents to \$2.90.

For fiscal 2024, management affirmed their prior guidance, expecting FFO/share to be between \$12.80 and \$12.90. 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	\$12.85	\$14.90
DPS	\$5.15	\$6.05	\$6.50	\$7.15	\$7.90	\$8.30	\$6.00	\$5.85	\$6.90	\$7.45	\$8.40	\$9.74
Shares¹	311.0	309.0	313.0	311.0	309.0	306.0	308.7	328.5	327.8	326.8	326.2	315.0

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, while at the end of Q3-2024 it had a base minimum rent of \$57.71 per square foot on average (up 2.3% 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 highly 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. 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

¹ In millions

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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	13.9	11.0
Avg. Yld.	3.0%	3.2%	3.2%	4.2%	4.7%	5.6%	6.5%	4.3%	5.8%	6.9%	4.7%	5.9%

Simon's historical average valuation of 13.7x FFO indicates that the current projected valuation of 13.9x FFO for FY2024 is closely aligned with its typical long-term average. Yet, we believe shares are overvalued. High interest rates suggest investors should require a higher equity risk premium, despite Simon's admittedly excellent results. Our fair P/FFO stands at a lower 11X. Still, the stock's current yield of 3.7% is also in-line with its past-decade average. We believe shares would be more attractive attached to a higher yield today.

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%

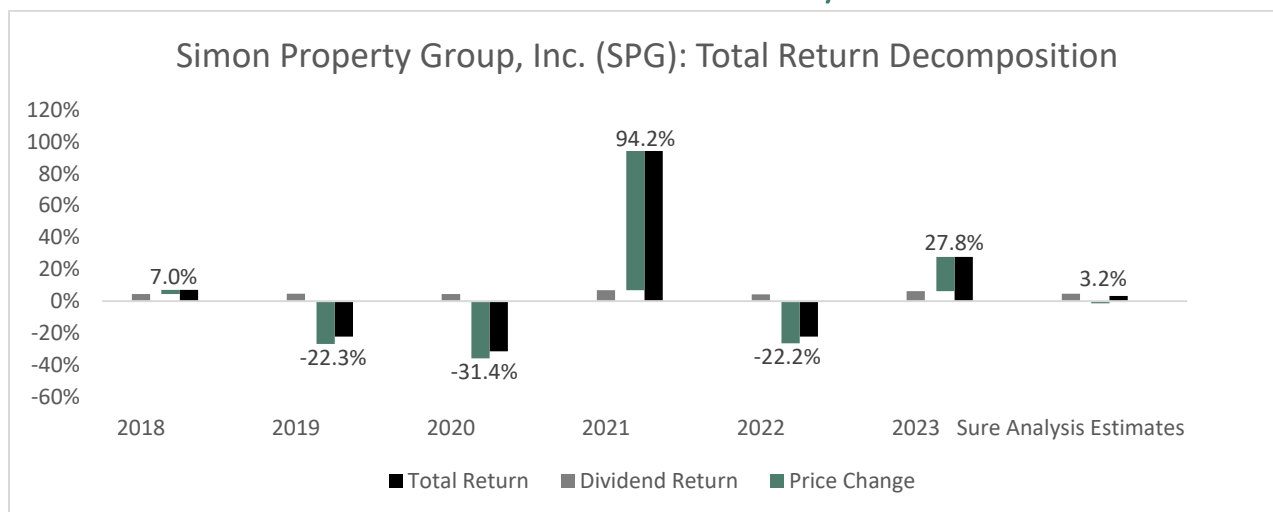
Simon's quality metrics have been very stable in the past decade as the company has kept operating metrics such as balance sheet leverage and unsecured interest coverage (3.5X) in a fairly narrow range. Profitability should improve further over time, with Simon's capacity to raise rent remaining robust. 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 just 3.2% total annualized returns in the coming years, as a starting yield of 5.1%, and modest growth, could be largely offset by valuation headwinds. Simon's healthy metrics, world-class management, high-quality real estate portfolio, and successful acquisition of Taubman should keep translating to solid financials. Yet, rate Simon as a sell at current levels, as its total return prospects appears fairly weak.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4871	5266	5435	5539	5658	5,755	4,608	5,117	5,291	5,659
Gross Profit	3988	4306	4464	4559	4650	4,734	3,720	4,146	4,290	4,630
Gross Margin	81.9%	81.8%	82.1%	82.3%	82.2%	82.2%	80.7%	81.0%	81.1%	81.8%
SG&A Exp.	355	350	366	338	334	185	121	145	143	166
D&A Exp.	1286	1239	1328	1357	1350	1,394	---	1,326	1,292	1,334
Operating Profit	2385	2669	2721	2802	2911	2,908	1,972	2,431	2,584	2,807
Operating Margin	49.0%	50.7%	50.1%	50.6%	51.5%	50.5%	42.8%	47.5%	48.8%	49.6%
Net Profit	1409	1828	1839	1948	2440	2,102	1,113	2,250	2,140	2,283
Net Margin	28.9%	34.7%	33.8%	35.2%	43.1%	36.5%	24.2%	44.0%	40.4%	40.3%
Free Cash Flow	1934	2004	2574	2862	2969	2,932	---	3,109	3,117	3,138
Income Tax	28	20	30	23	37	30	-4.6	157	84	82

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	29532	30565	31104	32258	30686	31232	34790	33780	33,010	34280
Cash & Equivalents	612	701	560	1482	514	669	1012	534	622	1,169
Acc. Receivable	580	625	665	743	764	832	1237	920	824	826
Goodwill & Int.	312	276	285	209	151	96	---	53	38	29
Total Liabilities	23581	25349	26144	28019	26889	28320	31310	29920	29190	30600
Accounts Payable	1260	1324	1214	1269	1317	1391	1312	1433	1,492	1693
Long-Term Debt	20853	22417	22977	24564	23238	24096	26720	25260	24,900	25,970
Total Equity	5049	4428	4267	3643	3254	2484	2997	3320	3,097	2,982
LTD/E Ratio	4.09	5.01	5.33	6.66	7.05	9.54	8.79	7.51	7.93	8.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.5%	6.1%	6.0%	6.1%	7.8%	6.8%	3.4%	6.6%	6.4%	6.8%
Return on Equity	26.0%	38.6%	42.3%	49.3%	70.8%	73.3%	40.6%	71.2%	66.7%	60.8%
ROIC	5.0%	6.7%	6.6%	6.9%	8.7%	7.8%	3.9%	7.6%	7.3%	7.8%
Shares Out.	311	309	313	311	309	306	309	329	327.82	326.8
Revenue/Share	15.68	16.98	17.38	17.78	18.27	18.69	149.2	15.57	16.14	17.32
FCF/Share	6.22	6.46	8.23	9.19	9.59	9.52	---	9.46	9.51	9.60

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

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