

Federal Realty (FRT)

\$99.96 (As of 06/05/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Federal Realty announced that as of May 29, it has collected roughly 54% of total May billed recurring rents and approximately 57% of total April billed recurring rents. The company's first-quarter results reflected fall in property operating income. Rent payment deficiencies and increased bad debt provisions due to the coronavirus pandemic affected its performance. Notably, shrinking traffic at retail properties, store closures and tenant bankruptcy remain concerns. Also, the pandemic and the resultant rent collection issues have added to its woes. Also, its shares have underperformed the industry over the past year. However, premium properties in high-growth areas, diversified tenant base, focus on essential retail and mixed use assets, and balance sheet-strengthening moves are expected to help it sail through the current blues.

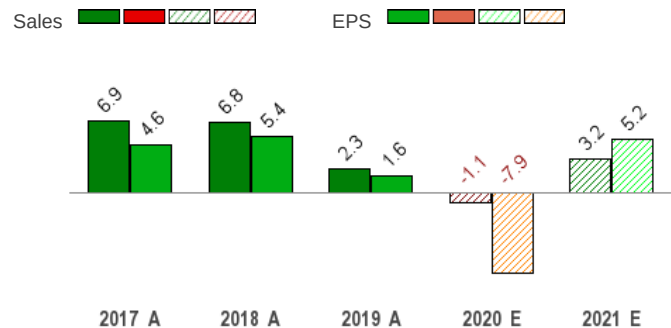
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$141.35 - \$64.11
20 Day Average Volume (sh)	1,014,807
Market Cap	\$7.6 B
YTD Price Change	-22.4%
Beta	0.91
Dividend / Div Yld	\$4.20 / 4.2%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.0%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	NA
Earnings ESP	-2.0%
P/E TTM	15.9
P/E F1	17.2
PEG F1	3.5
P/S TTM	8.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	241 E	242 E	249 E	252 E	956 E
2020	232 A	227 E	230 E	236 E	926 E
2019	232 A	230 A	234 A	239 A	936 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.51 E	\$1.53 E	\$1.58 E	\$1.57 E	\$6.13 E
2020	\$1.50 A	\$1.43 E	\$1.45 E	\$1.48 E	\$5.83 E
2019	\$1.56 A	\$1.60 A	\$1.59 A	\$1.58 A	\$6.33 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/05/2020. The reports text is as of 06/08/2020.

Overview

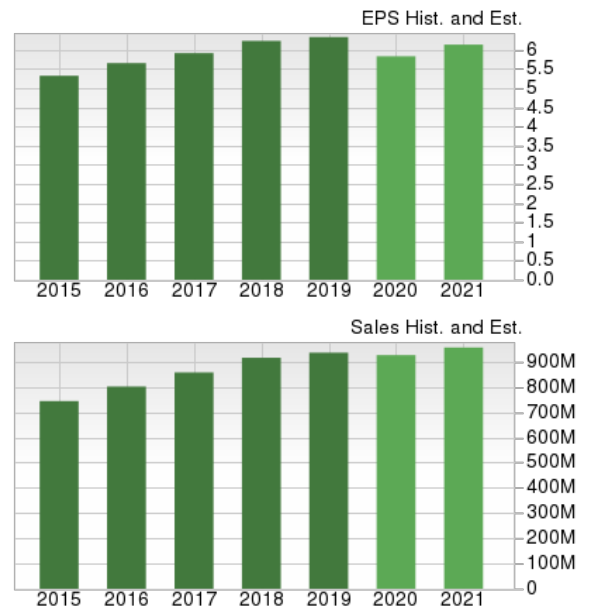
Rockville, MD-based Federal Realty is a real estate investment trust (REIT) that owns, manages, develops and redevelops premium retail and mixed-use properties in the United States. The assets — community and neighborhood shopping centers and mixed-use properties — are mainly concentrated over strategically-selected metropolitan markets in the Northeast and Mid-Atlantic regions of the nation, California and South Florida. Federal Realty's retail properties are anchored by supermarkets, drug stores or high-volume, value-oriented retailers, which provide consumer necessities.

As of Mar 31, 2020, the company had 104 properties that included around 3,000 tenants in 24.1 million square feet of space, and more than 2,700 residential units. The real estate projects were 93.6% leased and 91.5% occupied as of that date.

In January 2020, Federal Realty acquired a 49,000-square-foot shopping center in Fairfax, VA, for \$22.3 million. This property is next to, and will be operated as part of the company's Fairfax Junction property. Moreover, in February 2020, the company acquired two buildings aggregating 12,000 square feet in Hoboken, NJ, for \$14.3 million, including an assumption of \$8.9 million of mortgage debt.

The company focuses on investing in densely populated, well-off communities where retail demand is high. Moreover, mixed-use developments have gained popularity in recent years and the company targets creating urban, mixed-use neighborhoods like Santana Row in San Jose, CA, Pike & Rose in North Bethesda, MD, and Assembly Row in Somerville, MA.

Note: All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Federal Realty's portfolio of premium retail assets — mainly situated in the major coastal markets from Washington, D.C. to Boston, San Francisco and Los Angeles — along with a diverse tenant base, both national and local, positions it well for decent growth. Specifically, the diversified tenant base of retailers includes names like TJX Companies, Kroger, Gap Inc. and CVS Corporation. This limits the company's risk to any particular retail industry and positions the company well for experiencing a stable source of rental revenues. In fact, as of Dec 31, 2019, no one tenant or affiliated group of tenant for more than 2.6% of annualized base rent. Again due to the strong demographics and infill nature of its properties, the company has been able to maintain a high occupancy level and healthy rental rates over the years.
- ▲ Federal Realty has been capitalizing on expansion opportunities in premium markets, which generates income growth and creates long-term value. Further, Federal Realty has also been focused on raising its operating performance through renovation and re-tenanting. Such efforts bode well for the company's long-term growth. In addition, amid the challenges in the retail real estate market, the company has been diversifying its portfolio with residential properties. Presently, around 20% of its annualized base rent (ABR) comes from office and residential while 24% of ABR comes from essential retail. The May rent collections from such tenants have been better with 100% collections from Banks / Financial Services, 99% from Grocery & Drug, 95% from residential and 92% from office tenants.
- ▲ Federal Realty focuses on maintaining a decent balance-sheet position with ample liquidity. As part of strengthening its financial position and maximizing liquidity, in March 2020, the company drew down \$990 million of its \$1 billion revolving credit facility, resulting in \$995 million of cash and cash equivalents as of the first-quarter end. Further, in May, the company completed \$400 million term loan to enhance liquidity, as well as closed on \$400 million of 3.50% notes due 2030 and an additional \$300 million of 3.95% notes due 2024. Additionally, nothing is outstanding in the company's \$1-billion revolving credit facility. With approximately \$2 billion of liquidity in cash on hand and undrawn credit facility availability as well as manageable upcoming maturities, amounting \$340 million through year-end 2021, the company seems well poised to navigate through current challenging times. Also, the company's credit metrics remains decent with net debt-to-EBITDA at 5.7 times, fixed charge coverage at four times and a weighted average debt maturity of 10 years. Moreover, Federal Realty's credit ratings of A-, A3 ratings from Standard & Poor's and Moody's, respectively, enable it to procure debt financing at attractive cost.
- ▲ Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Federal Realty remains committed to that. In August 2019, the company announced a 2.9% hike in quarterly dividends. The company has paid uninterrupted dividends since its inception in 1962 and the latest hike marked the 52nd consecutive year of common dividend increases by the company. Its compound annual growth rate of dividend increases over the past 52 years is around 7%. Given the company's balance sheet and liquidity position compared to that of the industry, this dividend rate is expected to be sustainable. The company has also expressed its intent to continue the tradition of increasing dividend every year as it did over the past years.

Upscale geographic location of its properties, a diversified tenant base, focus on essential retail and mixed-use assets, and balance-sheet strengthening moves will help sail through current turmoil.

Reasons To Sell:

- ▼ Over the recent years, mall traffic has continued to suffer amid a rapid shift in customers' shopping preferences and patterns with online purchases growing by leaps and bounds. These have made retailers reconsider their footprint and eventually opt for store closures. Further, retailers that are not being able to cope with competition are filing bankruptcies. This has emerged as a pressing concern for retail REITs, like Federal Realty, as the trend is curtailing demand for the retail real estate space considerably.
- ▼ Furthermore, the escalating number of coronavirus cases has forced several retailers to close stores, in order to contain the spread of the virus. Some retailers have also reduced store hours, while many others are keeping their e-retail operations running as consumers are now increasingly opting for online purchases. As a result, retail REITs, including Federal Realty, which have already been battling store closures and bankruptcy issues, are feeling the brunt. The company noted that though all 104 of its shopping centers are open and operating, roughly 54% of its commercial tenants were open and operating as of May 29, up from 47% as of May 1. A number of states where the company does its business have been adversely impacted. Also, with the tenant roster having exposure to lifestyle and entertainment-oriented restaurants, and retailers that are not essential for consumers during pandemic, rent collection remains a pressing concern and given the current environment, this trend is likely to continue in the near term.
- ▼ Additionally, amid the fast-changing retail environment, the company has been making efforts to expand, redevelop and re-merchandise its portfolio. This includes an upgrade of the tenant mix. While repositioning and redevelopment are a strategic fit for long-term growth, such initiatives involve considerable upfront costs and tend to drag down near-term profitability.
- ▼ Shares of Federal Realty have declined 23.8% over the past year, underperforming the industry's fall of 16.3%. The trend in the current-year FFO per share estimate revisions does not indicate a favorable outlook for the company. The full-year 2020 FFO per share estimate witnessed 1.9% downward revision in the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Shrinking traffic at retail properties, store closures and tenant bankruptcy remain concerns. The coronavirus pandemic and the resultant rent collection issues have added to the company's woes.

Last Earnings Report

Federal Realty Q1 FFO and Revenues Miss Estimates

Federal Realty's first-quarter 2020 FFO per share of \$1.50 missed the Zacks Consensus Estimate of \$1.53. Moreover, the reported figure declined 3.9% from the prior-year tally of \$1.56.

Total revenues fell marginally year over year to \$231.6 million in the reported quarter. The top-line figure also missed the Zacks Consensus Estimate of \$232.8 million.

Results reflect fall in property operating income. The company noted that rent payment deficiencies and increased bad debt provisions, among other items, directly attributed to coronavirus pandemic, aggregated \$4 million or 6 cents per share in the first quarter.

The company informed that it has collected about 53% of total April 2020 billed recurring rents.

Quarter in Details

During the reported quarter, Federal Realty signed 82 leases for 491,003 square feet of retail space. On a comparable space basis, the company leased 466,453 square feet at an average rent of \$26.78 per square foot. This denotes cash-basis rollover growth of 5%.

As of Mar 31, 2020, the company's overall portfolio was 93.6% leased. As of that date, the comparable property portfolio was 94.2% leased. Property operating income (POI) for comparable properties fell 2.5% during the quarter.

During the March-end quarter, Federal Realty sold the Pottery Barn building in Old Pasadena, CA, for \$16.1 million.

Balance Sheet

Federal Realty exited first-quarter 2020 with cash and cash equivalents of \$994.7 million, up from the \$127.4 million reported at the end of 2019.

The company made use of its \$1-billion revolving credit facility by drawing down \$990 million in March.

Also, on May 6, the company concluded a \$400-million unsecured term loan to repay outstanding balances under its \$1-billion unsecured credit facility. This term loan carries an interest of LIBOR plus 135 basis points (bps). This will mature in May 2021 with the company having an option to extend it till May 2022.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	-0.55%
EPS Surprise	-1.96%
Quarterly EPS	1.50
Annual EPS (TTM)	6.27

Recent News

Federal Realty Announces Collection of 54% of May Rent – Jun 1, 2020

Federal Realty announced that the company has collected roughly 54% of total May 2020 billed recurring rents, as of May 29. The company also noted that this is ahead of the pace for April's rent collections at the end of the month.

In addition, approximately 57% of its total April billed recurring rents have been collected so far. Further, based on annualized base rent, roughly 54% of its commercial tenants are open and operating. Nevertheless, with many of its markets beginning and continuing phased re-openings in June, openings are anticipated to carry on for the next few weeks.

Nevertheless, the company noted that construction activity has resumed at Santana West and Assembly Row, as well as in other smaller redevelopments. Though construction activities continue at Pike & Rose, CocoWalk & Darien, the pace is slower amid observations of COVID-19 safety protocols at all sites.

Dividend Update

On May 6, Federal Realty announced a regular quarterly cash dividend of \$1.05 per share, resulting in an annual rate of \$4.20 per share. This dividend will be paid on Jul 15, to shareholders of record as of Jun 22, 2020.

Valuation

Federal Realty's shares have declined 23.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 16.3% and 7.1%, over the past year, respectively.

The S&P 500 Index is up 10.4% over the past year.

The stock is currently trading at 16.77X forward 12-month FFO, which compares with the 13.55X for the Zacks sub-industry, 17.76X for the Zacks sector and 23.08X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 28.54X and as low as 10.20X, with a 5-year median of 20.81X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$106 price target reflects 17.78X FFO.

The table below shows summary valuation data for FRT.

Valuation Multiples - FRT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	16.77	13.55	17.76	23.08
	5-Year High	28.54	19.44	17.76	23.08
	5-Year Low	10.2	9.72	11.58	15.23
	5-Year Median	20.81	14.81	13.98	17.49
P/S F12M	Current	8.05	7.43	6.00	3.59
	5-Year High	14.44	13.91	6.65	3.59
	5-Year Low	5.13	5.43	4.95	2.53
	5-Year Median	10.47	8.17	6.06	3.02
P/B TTM	Current	3.1	2.75	2.49	4.36
	5-Year High	6.23	5.57	2.91	4.56
	5-Year Low	2.03	1.77	1.71	2.83
	5-Year Median	4.34	3.36	2.53	3.65

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Acadia Realty Trust (AKR)	Neutral	4
Brixmor Property Group Inc. (BRX)	Neutral	4
Kimco Realty Corporation (KIM)	Neutral	4
Regency Centers Corporation (REG)	Neutral	4
Retail Properties of America, Inc. (RPAI)	Neutral	4
SITE CENTERS CORP. (SITC)	Neutral	3
Weingarten Realty Investors (WRI)	Neutral	4
Urban Edge Properties (UE)	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	FRT	X Industry	S&P 500	BRX	KIM	REG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	4
VGM Score	F	-	-	D	D	D
Market Cap	7.56 B	1.71 B	23.09 B	4.60 B	6.58 B	8.62 B
# of Analysts	9	6	14	8	10	9
Dividend Yield	4.20%	6.22%	1.82%	7.35%	7.36%	4.69%
Value Score	D	-	-	C	D	D
Cash/Price	0.16	0.14	0.06	0.18	0.09	0.10
EV/EBITDA	15.81	13.46	13.17	12.07	15.55	18.54
PEG Ratio	3.62	5.92	3.13	NA	9.64	5.75
Price/Book (P/B)	3.10	1.36	3.15	1.72	1.35	1.36
Price/Cash Flow (P/CF)	12.72	8.81	12.43	7.75	9.33	14.65
P/E (F1)	17.75	12.04	22.80	8.91	11.56	14.59
Price/Sales (P/S)	8.08	4.76	2.52	3.97	5.71	7.62
Earnings Yield	5.83%	8.31%	4.19%	11.22%	8.67%	6.85%
Debt/Equity	1.84	1.18	0.76	2.06	1.19	0.74
Cash Flow (\$/share)	7.86	2.19	7.01	2.00	1.63	3.47
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	4.59%	1.39%	10.87%	-1.65%	-1.00%	6.75%
Proj. EPS Growth (F1/F0)	-7.93%	-10.45%	-10.79%	-8.83%	-10.48%	-10.51%
Curr. Cash Flow Growth	22.11%	0.37%	5.48%	-14.31%	-14.81%	-0.84%
Hist. Cash Flow Growth (3-5 yrs)	12.40%	5.61%	8.55%	5.61%	1.91%	11.14%
Current Ratio	4.79	2.53	1.29	1.68	2.01	4.54
Debt/Capital	64.19%	54.42%	44.75%	67.30%	54.42%	42.49%
Net Margin	37.27%	22.53%	10.59%	23.43%	33.33%	11.02%
Return on Equity	14.40%	6.04%	16.26%	9.94%	7.64%	1.97%
Sales/Assets	0.14	0.13	0.55	0.14	0.10	0.10
Proj. Sales Growth (F1/F0)	-1.05%	-4.14%	-2.61%	-3.67%	-4.61%	-2.42%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	5.47%	6.77%	2.89%	8.46%	6.36%	1.99%
1 Week Price Chg	1.81%	3.14%	4.60%	3.05%	-1.94%	3.71%
4 Week Price Chg	33.30%	40.81%	15.60%	43.61%	51.44%	29.86%
12 Week Price Chg	-4.23%	6.12%	29.34%	16.88%	19.65%	-1.63%
52 Week Price Chg	-24.40%	-27.36%	2.76%	-12.96%	-17.06%	-25.17%
20 Day Average Volume	1,014,807	1,474,519	2,537,324	3,810,562	10,643,927	1,546,112
(F1) EPS Est 1 week change	-0.51%	0.00%	0.00%	-0.21%	0.15%	0.45%
(F1) EPS Est 4 week change	-2.13%	-2.27%	-0.08%	-2.04%	-6.40%	-2.46%
(F1) EPS Est 12 week change	-10.13%	-10.79%	-16.19%	-10.47%	-11.61%	-11.11%
(Q1) EPS Est Mthly Chg	-1.35%	-3.81%	0.00%	-2.60%	-8.13%	-3.97%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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