

Federal Realty (FRT)

\$82.45 (As of 08/17/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 07/22/20)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **5-Strong Sell**
Zacks Style Scores: VGM:F
Value: F | Growth: F | Momentum: F

Summary

Federal Realty's disappointing second-quarter performance reflects the adverse impacts of the pandemic and collectability-related adjustments. As of Jul 31, 2020, it collected about 76% of July billed recurring rents. Deferral agreements have been executed for 10% of billed recurring rents for April through June 2020. Though the company has premium properties in high-growth areas and decent balance-sheet position; shrinking traffic at retail properties, store closures, tenant bankruptcy and exposure to non-essential retail tenants are key concerns. The choppiness will likely prevail with the dwindling footfall amid the social-distancing mandates and higher e-commerce adoption. Hence, rent collections, occupancy and pricing power are likely to bear the brunt. The company's shares have also underperformed the industry over the past year.

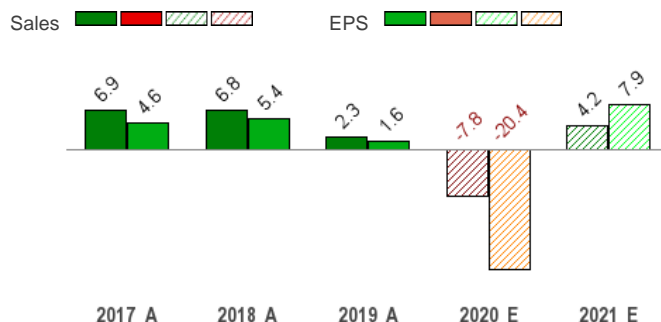
Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$141.35 - \$64.11**
20 Day Average Volume (sh) **789,585**
Market Cap **\$6.2 B**
YTD Price Change **-36.0%**
Beta **0.85**
Dividend / Div Yld **\$4.24 / 5.1%**
Industry [REIT and Equity Trust - Retail](#)
Zacks Industry Rank **Bottom 4% (243 out of 252)**

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise **-36.4%**
Last Sales Surprise **-17.1%**
EPS F1 Est- 4 week change **-11.8%**
Expected Report Date **11/04/2020**
Earnings ESP **-3.1%**

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	224 E	225 E	228 E	234 E	899 E
2020	232 A	176 A	212 E	220 E	863 E
2019	232 A	230 A	234 A	239 A	936 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.30 E	\$1.31 E	\$1.36 E	\$1.41 E	\$5.44 E
2020	\$1.50 A	\$0.77 A	\$1.22 E	\$1.29 E	\$5.04 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.

P/E TTM **15.2**
P/E F1 **16.4**
PEG F1 **3.3**
P/S TTM **7.1**

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

Overview

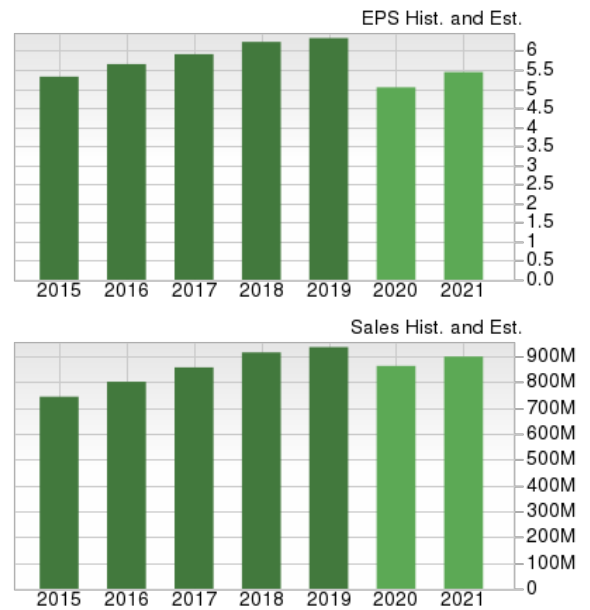
Rockville, MD-based Federal Realty is a real estate investment trust (REIT) that owns, manages, develops and redevelops premium retail and mixed-use properties in the United States. The assets — community and neighborhood shopping centers and mixed-use properties — are mainly concentrated over strategically-selected 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 Jun 30, 2020, the company had 104 properties that included around 2,900 tenants in 24 million square feet, and approximately 2,800 residential units. The real estate projects were 93.0% leased and 90.8% 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 Sell:

- ▼ In recent years, traffic at retail properties 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 forced several retailers to close stores or reduce store hours. Situations have now improved from the start of the pandemic and the company noted that though all 104 of its shopping centers are open and operating, still roughly 87% of its commercial tenants were open and operating as of Jul 31. 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 properties, and retailers that are not essential for consumers during the pandemic, rent collection remains a pressing concern. Given the current environment, the trend is likely to continue in the near term. As of Jul 31, 2020, the company collected about 68% and 76% of second-quarter and July billed recurring rents, while deferral agreements have been executed for \$21 million or 10% of billed recurring rents for April through June 2020 and have a weighted average repayment period of nine months. Given the current environment, the choppiness 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 39.4% over the past year compared with the industry's fall of 19.4%. Moreover, 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 a 2.1% downward revision in the past week. 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.

Risks

- 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 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 Jun 30, 2020, no retail tenant accounted for greater than 2.6% of annualized base rent (ABR). Due to the strong demographics and infill nature of its properties, the company has been able to maintain a high occupancy level over the years. Moreover, its focus on open-air format and "The Pick-Up" concept poises it well to lure tenants amid the current health crisis.
 - Federal Realty has been capitalizing on expansion opportunities in premium markets, which generates income growth and creates long-term value. In January 2020, the company acquired a 49,000-square-foot shopping center in Fairfax, VA, for \$22.3 million and in February the company acquired two buildings aggregating 12,000 square feet in Hoboken, NJ, for \$14.3 million, including the assumption of \$8.9 million of mortgage debt. Further, Federal Realty has expertise in raising its operating performance through conversion, redevelopment and repurposing of assets. 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 and office properties. Presently, around 21% of ABR comes from office & residential, while 24% of ABR comes from essential retail. Moreover, more than 75% of its centers have a grocery component. Notably, the second-quarter billed recurring rent collections from such tenants have been better with 100% collections from Banks / Financial Services, 99% from Grocery & Drug, 98% from residential, and 97% from communications & home office tenants.
 - Federal Realty focuses on maintaining a decent balance-sheet position with ample liquidity. The company exited second-quarter 2020 with approximately \$2 billion in liquidity with \$980 million of available cash and an undrawn \$1-billion credit facility. Moreover, with manageable upcoming maturities, amounting to \$340 million through 2021-end, the company seems well-poised to navigate through current challenging times. While the company's net debt to EBITDA and coverage ratios moved unfavorably to some extent amid the current choppy environment and the company's navigating efforts, its weighted average debt maturity is 9 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 an attractive cost.
 - Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Federal Realty remains committed to that. In August 2020, even amid the pandemic, the company announced a roughly 1% hike in quarterly dividends. The company has paid out uninterrupted dividends since its inception in 1962 and the latest hike marked the 53rd consecutive year of common dividend increases by the company. Given the company's balance sheet and liquidity position compared to that of the industry, this dividend rate is expected to be sustainable.
-

Last Earnings Report

Federal Realty's Q2 FFO and Revenues Miss Estimates

Federal Realty's second-quarter 2020 FFO per share of 77 cents missed the Zacks Consensus Estimate of \$1.21. Moreover, the reported figure plummeted 51.9% from the prior-year tally of \$1.60.

Total revenues fell 23.5% year over year to \$176.2 million in the reported quarter. The top-line figure also missed the Zacks Consensus Estimate of \$212.5 million.

Quarterly results reflected the adverse impact of the coronavirus pandemic and particularly collectability related adjustment impacts.

As of Jul 31, 2020, the company has collected about 68% of the second quarter and 76% of July billed recurring rents. However, deferral agreements have been executed for \$21 million, or 10%, of billed recurring rents for April through June 2020 and have a weighted average repayment period of 9 months.

Quarter in Details

During the reported quarter, Federal Realty signed 50 leases for 314,679 square feet of retail space. On a comparable space basis, the company leased 277,681 square feet at an average rent of \$28.55 per square foot. This denotes cash-basis rollover growth of 11%. Moreover, during the quarter, the company signed 15 leases for 94,805 square feet of office space.

As of Jun 30, 2020, the company's overall portfolio was 93% leased. As of the same date, the comparable property portfolio was 93.7% leased.

Balance Sheet

Federal Realty exited second-quarter 2020 with cash and cash equivalents of \$980 million, up from \$127.4 million recorded at the end of 2019. Along with undrawn availability under its \$1-billion revolving credit facility, the company's liquidity amounted to \$2 billion.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	-17.06%
EPS Surprise	-36.36%
Quarterly EPS	0.77
Annual EPS (TTM)	5.44

Recent News

Dividend Update

Concurrent with its second-quarter 2020 earnings release, Federal Realty announced a marginal increase in its regular quarterly cash dividend to \$1.06 per share from \$1.05. It indicates an annual rate of \$4.24 per share. The dividend will be paid out on Oct 15 to shareholders of record as of Sep 22, 2020. This is the 53rd consecutive year that the company has increased its quarterly dividend.

Valuation

Federal Realty's shares have declined 39.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 19.4% and 7.2% over the past year, respectively.

The S&P 500 Index has been up 15.8% over the trailing 12-month period.

The stock is currently trading at 15.58X forward 12-month FFO, which compares with the 13.62X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.87X 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 20.57X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$70 price target reflects 13.23X 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	15.58	13.62	16.65	22.87
	5-Year High	28.54	19.44	16.65	22.87
	5-Year Low	10.2	9.72	11.60	15.25
	5-Year Median	20.57	14.70	14.26	17.58
P/S F12M	Current	7.04	7.27	6.22	3.71
	5-Year High	14.44	13.91	6.67	3.71
	5-Year Low	5.13	5.43	4.97	2.53
	5-Year Median	10.39	8.17	6.06	3.05
P/B TTM	Current	2.63	2.58	2.48	4.54
	5-Year High	6.23	5.57	2.91	4.56
	5-Year Low	2.03	1.77	1.72	2.83
	5-Year Median	4.3	3.34	2.53	3.74

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Kimco Realty Corporation (KIM)	Neutral	3
Regency Centers Corporation (REG)	Neutral	3
Retail Properties of America, Inc. (RPAI)	Neutral	4
SITE CENTERS CORP. (SITC)	Neutral	4
Urban Edge Properties (UE)	Neutral	3
Weingarten Realty Investors (WRI)	Neutral	4
Acadia Realty Trust (AKR)	Underperform	5
Brixmor Property Group Inc. (BRX)	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)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	5	3	3
VGM Score	F	-	-	D	F	F
Market Cap	6.24 B	1.55 B	23.75 B	3.74 B	5.19 B	7.25 B
# of Analysts	9	6.5	14	8	11	9
Dividend Yield	5.09%	2.72%	1.62%	0.00%	0.00%	5.57%
Value Score	F	-	-	C	C	C
Cash/Price	0.16	0.10	0.07	0.09	0.04	0.08
EV/EBITDA	14.12	11.90	13.49	11.07	13.59	16.55
PEG Ratio	3.24	6.97	3.03	NA	8.35	6.97
Price/Book (P/B)	2.63	1.14	3.18	1.40	0.92	1.17
Price/Cash Flow (P/CF)	10.49	6.74	12.85	6.30	7.36	12.32
P/E (F1)	15.88	10.88	22.17	7.77	10.02	12.75
Price/Sales (P/S)	7.08	3.88	2.49	3.35	4.69	6.68
Earnings Yield	6.11%	9.19%	4.32%	12.85%	10.00%	7.84%
Debt/Equity	1.94	1.09	0.77	1.98	0.97	0.73
Cash Flow (\$/share)	7.86	2.19	6.94	2.00	1.63	3.47
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	3.28%	-0.36%	10.44%	-2.67%	-1.49%	5.57%
Proj. EPS Growth (F1/F0)	-20.36%	-16.38%	-5.97%	-14.98%	-18.49%	-13.85%
Curr. Cash Flow Growth	22.11%	0.37%	5.22%	-14.31%	-14.81%	-0.84%
Hist. Cash Flow Growth (3-5 yrs)	12.40%	5.61%	8.52%	5.61%	1.91%	11.14%
Current Ratio	4.82	2.29	1.33	1.43	2.01	3.45
Debt/Capital	65.32%	52.55%	44.59%	66.45%	49.28%	42.15%
Net Margin	31.57%	17.83%	10.13%	18.97%	93.11%	8.43%
Return on Equity	11.47%	4.88%	14.51%	7.80%	20.23%	1.46%
Sales/Assets	0.12	0.12	0.51	0.13	0.10	0.10
Proj. Sales Growth (F1/F0)	-7.76%	-7.72%	-1.67%	-7.69%	-9.65%	-5.57%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	0.70%	0.70%	-0.02%	1.45%	0.17%	-0.37%
1 Week Price Chg	3.90%	2.05%	1.09%	2.05%	0.42%	2.95%
4 Week Price Chg	9.87%	7.38%	4.83%	9.18%	6.67%	3.76%
12 Week Price Chg	5.05%	11.28%	13.09%	16.44%	5.91%	3.54%
52 Week Price Chg	-37.23%	-38.02%	2.77%	-32.50%	-36.58%	-35.01%
20 Day Average Volume	789,585	896,276	1,932,479	2,347,848	5,679,819	1,206,006
(F1) EPS Est 1 week change	-2.07%	0.00%	0.00%	-0.69%	-0.45%	0.00%
(F1) EPS Est 4 week change	-11.80%	-3.15%	1.80%	-4.34%	-3.16%	-5.97%
(F1) EPS Est 12 week change	-14.65%	-8.40%	2.88%	-7.02%	-12.09%	-5.81%
(Q1) EPS Est Mthly Chg	-13.50%	-2.35%	0.80%	-5.85%	-0.66%	-2.35%

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	F
Growth Score	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.