

Federal Realty (FRT)

\$129.53 (As of 01/17/20)

Price Target (6-12 Months): **\$137.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Federal Realty's premium retail real estate assets, diverse tenant base and focus on mixed used properties are likely to drive growth over the long haul. In the recent quarters, the company undertook a number of strategic initiatives, which included the targeted acquisition of the Kmart parcel at Assembly as well as important lease recaptures. These offer future development potential. Also, a decent balance sheet position and well laddered debt maturity schedule acts favorably. In December, Federal Realty sold a portion of San Antonio Center, in Mountain View, CA for \$155 million, under threat of condemnation. However, shrinking footfall at malls, store closures and bankruptcy of retailers are likely to keep affecting this retail REIT's performance in the near term. Also, its shares have underperformed the industry over the past year.

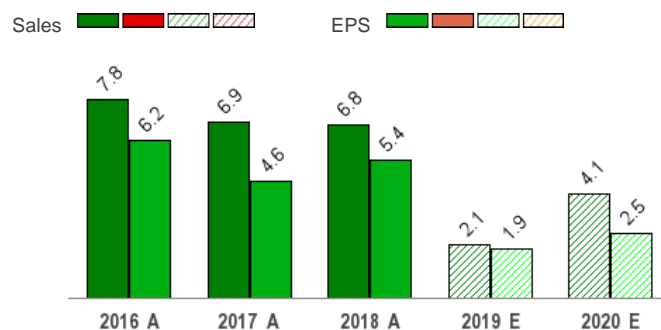
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$141.35 - \$124.36
20 Day Average Volume (sh)	353,444
Market Cap	\$9.8 B
YTD Price Change	0.6%
Beta	0.40
Dividend / Div Yld	\$4.20 / 3.2%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	02/10/2020
Earnings ESP	1.2%
P/E TTM	20.5
P/E F1	19.9
PEG F1	4.1
P/S TTM	10.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	241 E	244 E	248 E	254 E	972 E
2019	232 A	230 A	234 A	238 E	934 E
2018	225 A	225 A	230 A	235 A	915 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.59 E	\$1.63 E	\$1.66 E	\$1.67 E	\$6.51 E
2019	\$1.56 A	\$1.60 A	\$1.59 A	\$1.63 E	\$6.35 E
2018	\$1.52 A	\$1.55 A	\$1.58 A	\$1.57 A	\$6.23 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 01/17/2020. The reports text is as of 01/20/2020.

Overview

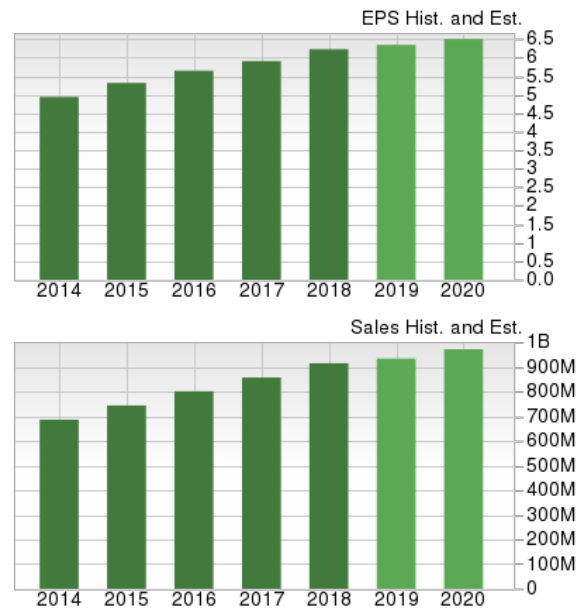
Rockville, MD-based Federal Realty is a real estate investment trust (REIT) that owns, manages, develops and redevelops premium retail and mixed-use properties in the United States. The assets — community and neighborhood shopping centers and mixed-use properties — are mainly concentrated over strategically-selected 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 Sep 30, 2019, the company had 104 properties that included around 3,000 tenants in 23.9 million square feet of space, and more than 2,600 residential units. The real estate projects were 94.2% leased and 92.8% occupied as of that date.

Notably, in February 2019, Federal Realty acquired the fee interest in Fairfax Junction, a 75,000-square-foot shopping center, in Fairfax, VA, for \$22.5 million. In September 2019, the company acquired a 6,000-square-foot retail building neighboring the San Antonio Center in Mountain View, CA for \$6.5 million. In the same month, the company also acquired a 42,000-square-foot retail building in Hoboken, NJ, for \$30.9 million, including the assumption of \$17 million of mortgage debt. The acquisition was accomplished through a newly-formed joint venture, for which the company owns a 90% stake.

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. Such developments that combine shopping, dining, living and working grab the attention of people who prefer to live, work and play in the same area and ensure steady demand and healthy occupancy.

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 Sep 30, 2019, no tenant accounted for more than 2.6% of commercial annual 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.
- ▲ In order to protect itself from short-term market swings, Federal Realty inks long-term leases with annual bumps. Despite the challenging landscape, the company has been enjoying healthy leasing activity and during third-quarter 2019, it signed 103 leases for 491,414 square feet of retail space. On a comparable space basis, the company leased 468,643 square feet at an average rent of \$38.93 per square foot. This denotes cash-basis rollover growth of 7%. Moreover, property operating income (POI) for comparable properties grew 2.1% in the third quarter of 2019.
- ▲ Federal Realty has been capitalizing on expansion opportunities in premium markets, which generates income growth and creates long-term value. Moreover, amid the challenges in the retail real estate market, the company is diversifying its portfolio with residential properties. To support its growth moves the company is selling non-core assets and redeploying the proceeds toward strategic growth schemes. Federal Realty is also focused on raising its operating performance through expansion, renovation and re-tenanting. Such efforts bode well for the company's long-term growth.
- ▲ Federal Realty has a decent balance-sheet position, with ample liquidity and is continuing with its efforts to enhance shareholders' wealth. The company has "A" rated balance sheet and exited third-quarter 2019 with cash and cash equivalents of approximately \$162.5 million, up from the \$64.1 million posted at the end of 2018. Moreover, at the end of third-quarter 2019, the company's net debt-to-EBITDA was 5.3x. Fixed charge coverage ratio was steady at 4.3x. The company has weighted average debt maturity of 11 years and its maturity schedule is well laddered. Moreover, nothing was drawn on the company's recently-expanded \$1-billion credit facility.
- ▲ 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. In fact, its compound annual growth rate of dividend increases over the past 52 years is around 7%. Given the company's financial position and lower debt/equity ratio compared to that of the industry, this dividend rate is expected to be sustainable.

Upscale geographic location of its properties, diverse tenant base with long-term lease, efforts to expand in premium markets and decent balance sheet drive Federal Realty's growth momentum.

Reasons To Sell:

- ▼ Though upbeat consumer confidence and a healthy economy have infused optimism into the retail market, mall traffic continues 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.
- ▼ Although Federal Realty's increasing development pipeline is encouraging for its future growth, it compounds operational risks by exposing it to rising construction costs, entitlement delays and lease-up risks. Additionally, amid fast changing retail environment, the company is making concerted 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.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ Shares of Federal Realty have gained 2.9% over the past year, underperforming the industry's rise of 8.7%. Moreover, the trend in the current-year FFO per share estimate revisions does not indicate a favorable outlook for the company. In fact, the full-year 2020 FFO per share estimates witnessed marginal downward revision in the past seven days. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential.

Shrinking footfall at retail properties amid shift of consumers toward online channels, store closures and bankruptcy of retailers are key challenges for Federal Realty.

Last Earnings Report

Federal Realty Q3 FFO Meets, Revenues Beat Estimates

Federal Realty Investment Trust's third-quarter 2019 adjusted FFO per share of \$1.59 came in line with the Zacks Consensus Estimate. The reported figure improved from the prior-year tally of \$1.58. The current-year adjusted FFO figure excludes the \$11.9-million charge associated with the buyout of the Kmart lease at Assembly.

Total revenues inched up 1.8% year over year to \$233.9 million. The top-line figure surpassed the Zacks Consensus Estimate of \$232.4 million.

Results reflect rise in property operating income and cash-basis rollover growth on comparable spaces.

Quarter in Details

During the reported quarter, Federal Realty signed 103 leases for 491,414 square feet of retail space. On a comparable space basis, the company leased 468,643 square feet at an average rent of \$38.93 per square foot. This denotes cash-basis rollover growth of 7%.

As of Sep 30, 2019, the company's overall portfolio was 94.2%, down 60 basis points (bps) year over year. As of that date, comparable property portfolio was 94.9% leased, down 60 bps from the prior-year period. However, property operating income (POI) for comparable properties grew 2.1% for the third quarter.

Federal Realty exited third-quarter 2019 with cash and cash equivalents of approximately \$162.5 million, up from the \$64.1 million posted at the end of 2018.

During the quarter, Federal Realty acquired the Kmart lease at Assembly Square Marketplace in Somerville, MA, for \$14.5 million. The move comes as part of the company's efforts to gain control and capitalize on future prospects in the dynamic, mixed-use Assembly neighborhood. It offers substantial value creation potential on a six-acre parcel of land at its highly successful Assembly Row project.

Outlook

For 2019, Federal Realty revised its FFO per share guidance to \$6.16-\$6.22. Excluding the charge related to the buyout of the Kmart lease at Assembly, the company estimates FFO per share of \$6.32-\$6.38.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	0.65%
EPS Surprise	0.00%
Quarterly EPS	1.59
Annual EPS (TTM)	6.32

Recent News

Federal Realty Sells Portion of San Antonio Center for \$155M – Dec 19, 2019

Federal Realty recently sold under threat of condemnation a portion of San Antonio Center, in Mountain View, CA for \$155 million. A school will be constructed by the Los Altos School District on the 11.7-acre sold land.

The regional shopping center, aggregating 35 acres, was acquired by the company in 2015 for \$62.2 million.

Kohl's, Jo-Ann, 24 Hour Fitness, and other small shop tenants occupied the portion of the property sold. The company will pay out tenant condemnation awards from sale proceeds.

Per management, the sale indicates value of the company's premium real estate portfolio, specifically in Silicon Valley. In fact, the company controls 140 acres of land in the region. This includes 2.4 million square feet of commercial space and 662 residential units.

Federal Realty Acquires Brooklyn's Georgetowne Shopping Center – Nov 18, 2019

Federal Realty announced the acquisition of a 147,000-square-foot grocery-anchored neighborhood shopping center — Georgetowne Shopping Center — in Brooklyn, NY. The company has shelled out \$83.7 million in cash to buy this surfaced-parked shopping center on 9 acres in Brooklyn's Georgetown neighborhood.

The move comes as part of the company's growth endeavors through portfolio expansions in locations that exhibit solid demographics and high barriers to entry. Also, the company plans to enhance the property value over time through continued remerchandising and space lease up with the possibility of augmenting square footage.

Currently, 90% occupied and anchored by specialty grocer Fairway Market and Five Below, the Georgetowne Shopping Center enjoys an advantageous location. It is situated on Ralph Avenue in the Georgetown neighborhood, a sub-division of the Bergen Beach neighboring Mill Basin and Flatlands. With the Bergen Beach located 7.5 miles southeast of Downtown Manhattan and about 6 miles west of the John F. Kennedy International Airport, the property is likely to witness solid footfall.

It also has a strong small shop roster led by Starbucks and Chipotle, and boasts solid demographics, with 88,845 people and average household income of \$102,641 within a 1-mile radius.

Dividend Update

On Oct 30, 2019, Federal Realty announced a quarterly cash dividend of \$1.05 per share. The increased dividend was paid out on Jan 15 to shareholders on record as of Jan 2, 2020.

Valuation

Federal Realty's shares have been up 2.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 8.7% and 11.7%, over the past year, respectively.

The S&P 500 Index is up 23.8% over the past year.

The stock is currently trading at 19.84X forward 12-month FFO, which compares with the 15.09X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 28.54X and as low as 17.37X, with a 5-year median of 21.29X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$137 price target reflects 20.98X FFO.

The table below shows summary valuation data for FRT.

Valuation Multiples - FRT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.84	15.09	14.73	19.2
	5-Year High	28.54	19.44	16.21	19.34
	5-Year Low	17.37	12.57	12.01	15.17
	5-Year Median	21.29	15.13	13.98	17.44
P/S F12M	Current	10.04	8.35	6.53	3.57
	5-Year High	14.44	13.91	6.61	3.57
	5-Year Low	8.6	7.13	5.2	2.54
	5-Year Median	10.71	8.34	6.04	3
P/B TTM	Current	4.05	3.37	2.86	4.55
	5-Year High	6.23	5.57	2.89	4.55
	5-Year Low	3.52	2.83	1.83	2.85
	5-Year Median	4.45	3.44	2.51	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	FRT Neutral	X Industry	S&P 500	BRX Neutral	KIM Neutral	REG Neutral
VGM Score	F	-	-	D	F	D
Market Cap	9.78 B	2.80 B	24.65 B	6.17 B	8.56 B	10.59 B
# of Analysts	6	5.5	13	7	9	8
Dividend Yield	3.24%	4.63%	1.73%	5.50%	5.53%	3.70%
Value Score	F	-	-	C	D	F
Cash/Price	0.02	0.03	0.04	0.01	0.02	0.00
EV/EBITDA	22.32	16.00	14.11	12.05	15.48	21.09
PEG Ratio	4.06	4.04	2.08	2.42	3.32	4.63
Price/Book (P/B)	4.05	2.06	3.39	2.24	1.72	1.67
Price/Cash Flow (P/CF)	19.68	12.58	13.81	8.93	10.57	18.28
P/E (F1)	19.90	14.52	19.19	10.54	13.46	16.12
Price/Sales (P/S)	10.50	6.00	2.69	5.26	7.46	9.38
Earnings Yield	5.03%	6.88%	5.21%	9.50%	7.45%	6.20%
Debt/Equity	1.42	1.05	0.72	1.76	1.09	0.65
Cash Flow (\$/share)	6.58	2.26	6.94	2.32	1.92	3.46
Growth Score	D	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	5.36%	2.99%	10.56%	-0.33%	-0.12%	7.70%
Proj. EPS Growth (F1/F0)	2.47%	2.38%	7.57%	2.38%	2.48%	1.42%
Curr. Cash Flow Growth	-3.92%	3.10%	14.73%	7.52%	2.71%	17.98%
Hist. Cash Flow Growth (3-5 yrs)	10.61%	9.77%	9.00%	10.81%	9.77%	20.87%
Current Ratio	1.52	1.06	1.24	0.50	NA	0.95
Debt/Capital	57.94%	51.19%	42.99%	63.75%	52.18%	39.34%
Net Margin	28.01%	24.75%	11.14%	24.75%	33.95%	24.71%
Return on Equity	11.09%	5.94%	17.16%	10.41%	7.36%	4.44%
Sales/Assets	0.15	0.13	0.55	0.14	0.10	0.10
Proj. Sales Growth (F1/F0)	4.05%	2.16%	4.16%	1.21%	1.23%	1.29%
Momentum Score	F	-	-	F	F	C
Daily Price Chg	0.21%	0.04%	0.27%	-0.10%	-0.34%	-0.08%
1 Week Price Chg	-0.17%	-0.42%	0.39%	-2.08%	-2.07%	-0.79%
4 Week Price Chg	1.30%	1.30%	2.95%	-3.58%	-1.31%	1.06%
12 Week Price Chg	-7.16%	-4.32%	7.76%	-0.72%	-4.21%	-8.30%
52 Week Price Chg	3.13%	6.30%	22.29%	28.76%	22.40%	2.85%
20 Day Average Volume	353,444	738,236	1,536,375	2,110,728	3,095,012	672,978
(F1) EPS Est 1 week change	-0.08%	0.00%	0.00%	-0.15%	-0.19%	-0.14%
(F1) EPS Est 4 week change	-1.42%	0.00%	0.00%	-0.25%	-0.63%	-0.48%
(F1) EPS Est 12 week change	-2.47%	-0.59%	-0.40%	0.15%	-0.49%	-1.75%
(Q1) EPS Est Mthly Chg	-1.08%	0.00%	0.00%	-0.34%	-1.83%	-0.10%

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	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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