

Federal Realty (FRT)

\$127.65 (As of 02/20/20)

Price Target (6-12 Months): **\$135.00**

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's fourth-quarter 2019 FFO per share missed the Zacks Consensus Estimate but improved year over year. Total revenues inched up 1.6% year over year. Results reflect rise in property operating income and cash-basis rollover growth on comparable spaces. The company's premium retail real estate assets, diverse tenant base and focus on mixed used properties are likely to drive growth over the long haul. It is also focused on raising its operating performance through expansion, renovation and re-tenanting. A decent balance-sheet position and a well-laddered debt maturity schedule act in favor. 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.

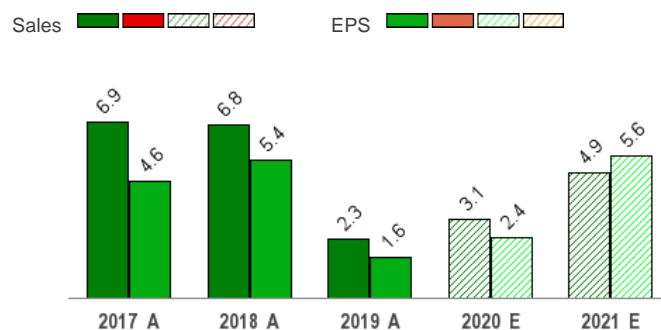
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$141.35 - \$122.50
20 Day Average Volume (sh)	469,173
Market Cap	\$9.7 B
YTD Price Change	-0.8%
Beta	0.46
Dividend / Div Yld	\$4.20 / 3.3%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 13% (221 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.3%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/07/2020
Earnings ESP	-0.4%
P/E TTM	20.2
P/E F1	19.7
PEG F1	4.0
P/S TTM	10.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	251 E	252 E	259 E	264 E	1,012 E
2020	237 E	239 E	243 E	250 E	965 E
2019	232 A	230 A	234 A	239 A	936 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.66 E	\$1.70 E	\$1.73 E	\$1.74 E	\$6.84 E
2020	\$1.58 E	\$1.62 E	\$1.64 E	\$1.66 E	\$6.48 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 02/20/2020. The reports text is as of 02/21/2020.

Overview

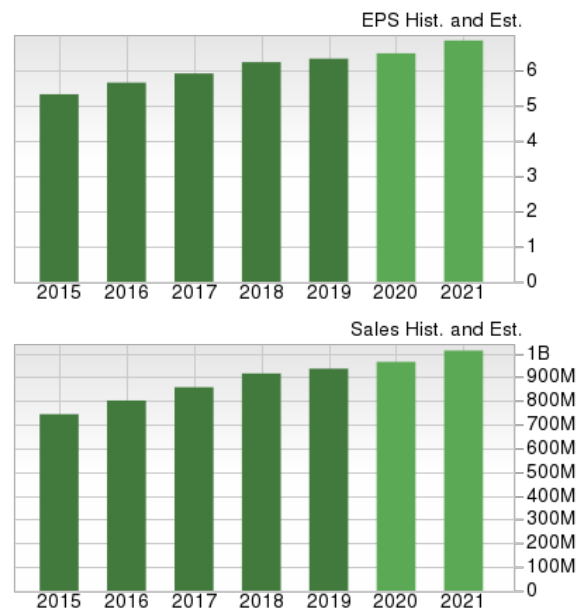
Rockville, MD-based Federal Realty is a real estate investment trust (REIT) that owns, manages, develops and redevelops premium retail and mixed-use properties in the United States. The assets — community and neighborhood shopping centers and mixed-use properties — are mainly concentrated over strategically-selected 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 Dec 31, 2019, the company had 104 properties that included around 3,000 tenants in 23.7 million square feet of space, and more than 2,600 residential units. The real estate projects were 94.2% leased and 92.5% occupied as of that date.

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. Further, in November, the company acquired a 147,000-square-foot grocery-anchored neighborhood shopping center — Georgetowne Shopping Center — with surface parking on 9 acres in Brooklyn, NY, for \$83.7 million in cash.

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.
- ▲ 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 fourth-quarter 2019, it signed 112 leases for 494,768 square feet of retail space. On a comparable space basis, the company leased 461,952 square feet at an average rent of \$37.78 per square foot. This denotes cash-basis rollover growth of 7%. Moreover, property operating income (POI) for comparable properties grew 2.4% in the fourth quarter.
- ▲ 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 boost shareholders' wealth. The company has an "A" rated balance sheet, and exited fourth-quarter 2019 with cash and cash equivalents of \$127.4 million, up from the \$64.1 million posted at the end of 2018. Moreover, at the end of the fourth quarter, the company's net debt-to-EBITDA was 5.5x. Fixed charge coverage ratio was steady at 4.2x. The company has weighted average debt maturity of 10-plus years and its maturity schedule is well laddered. Also, the weighted average interest rate on debt is 3.8%, with all of it effectively fixed. Further, nothing is outstanding on the company's recently-expanded and extended \$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 declined 5.6% over the past year, underperforming the industry's rise of 1.4%. 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 month. 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 Q4 FFO Misses, Revenues Beat Estimates

Federal Realty's fourth-quarter 2019 FFO per share of \$1.58 missed the Zacks Consensus Estimate of \$1.60. However, the reported figure improved from the prior-year tally of \$1.57.

Total revenues inched up 1.6% year over year to \$239.1 million in the reported quarter. The top-line figure also surpassed the Zacks Consensus Estimate of \$238.7 million.

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

For 2019, the company reported FFO per share of \$6.17, down from the prior-year tally of \$6.23. However, full-year revenues of \$935.8 million increased 2.2% year on year.

Quarter in Details

During the reported quarter, Federal Realty signed 112 leases for 494,768 square feet of retail space. On a comparable space basis, the company leased 461,952 square feet at an average rent of \$37.78 per square foot. This denotes cash-basis rollover growth of 7%.

As of Dec 31, 2019, the company's overall portfolio was 94.2%, shrinking 40 basis points (bps) year over year. As of that date, comparable property portfolio was 94.9% leased, down 20 bps from the prior-year period. However, property operating income (POI) for comparable properties grew 2.4% for the fourth quarter.

Federal Realty exited fourth-quarter 2019 with cash and cash equivalents of approximately \$127.4 million, up from the \$64.1 million posted at the end of 2018.

During the December-end quarter, Federal Realty sold under threat of condemnation of an 11.7-acre portion of San Antonio Center, located in Mountain View, CA, for \$155 million. Moreover, the company acquired a 147,000-square-foot grocery-anchored neighborhood shopping center — Georgetowne Shopping Center — with surface parking on 9 acres in Brooklyn, NY, for \$83.7 million cash.

Outlook

For 2020, Federal Realty expects FFO per share of \$6.40-\$6.58.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	0.20%
EPS Surprise	-1.25%
Quarterly EPS	1.58
Annual EPS (TTM)	6.33

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 Feb 10, Federal Realty announced a quarterly cash dividend of \$1.05 per share. The dividend will be paid on Apr 15, to shareholders on record as of Mar 16, 2020.

Valuation

Federal Realty's shares have declined 5.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 1.4% and 8.7%, over the past year, respectively.

The S&P 500 Index is up 20.5% over the past year.

The stock is currently trading at 19.51X forward 12-month FFO, which compares with the 15.09X for the Zacks sub-industry, 14.97X for the Zacks sector and 19.39X 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 21.18X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$135 price target reflects 20.63X 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	19.51	15.09	14.97	19.39
	5-Year High	28.54	19.44	16.21	19.39
	5-Year Low	17.37	12.57	12.01	15.18
	5-Year Median	21.18	15.11	14.15	17.47
P/S F12M	Current	9.93	8.35	6.55	3.59
	5-Year High	14.44	13.91	6.65	3.59
	5-Year Low	8.6	7.13	5.39	2.54
	5-Year Median	10.66	8.29	6.04	3
P/B TTM	Current	3.89	3.37	2.85	4.68
	5-Year High	6.23	5.57	2.89	4.68
	5-Year Low	3.52	2.83	1.83	2.85
	5-Year Median	4.41	3.41	2.51	3.62

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (221 out of 255)



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	D	D
Market Cap	9.66 B	2.73 B	24.34 B	6.06 B	8.01 B	10.74 B
# of Analysts	9	6	13	8	11	9
Dividend Yield	3.29%	4.93%	1.78%	5.61%	5.91%	3.65%
Value Score	D	-	-	C	D	D
Cash/Price	0.01	0.02	0.04	0.01	0.02	0.01
EV/EBITDA	18.58	16.11	14.18	13.84	14.88	21.26
PEG Ratio	4.05	3.80	2.09	2.69	2.82	5.14
Price/Book (P/B)	3.89	1.92	3.30	2.21	1.62	1.71
Price/Cash Flow (P/CF)	16.24	11.72	13.49	10.15	11.63	18.48
P/E (F1)	19.85	14.40	19.28	10.43	12.70	16.34
Price/Sales (P/S)	10.32	6.58	2.68	5.19	6.91	9.48
Earnings Yield	5.08%	6.94%	5.17%	9.59%	7.86%	6.12%
Debt/Equity	1.41	1.03	0.70	1.77	1.10	0.66
Cash Flow (\$/share)	7.86	2.13	7.03	2.00	1.63	3.47
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	5.05%	2.21%	10.84%	-1.03%	-0.59%	7.27%
Proj. EPS Growth (F1/F0)	2.39%	1.43%	7.09%	2.03%	1.54%	0.80%
Curr. Cash Flow Growth	22.11%	7.57%	6.72%	-14.31%	-14.81%	-0.84%
Hist. Cash Flow Growth (3-5 yrs)	12.40%	7.64%	8.25%	5.61%	1.91%	12.37%
Current Ratio	1.22	1.08	1.22	0.51	NA	1.33
Debt/Capital	58.01%	50.49%	42.37%	63.92%	52.40%	39.71%
Net Margin	37.81%	22.45%	11.56%	23.52%	35.43%	21.22%
Return on Equity	14.77%	5.91%	16.80%	9.94%	7.95%	3.86%
Sales/Assets	0.14	0.13	0.55	0.14	0.10	0.10
Proj. Sales Growth (F1/F0)	3.09%	1.49%	3.90%	0.90%	0.55%	2.38%
Momentum Score	F	-	-	F	B	D
Daily Price Chg	1.59%	1.45%	0.01%	1.45%	2.16%	1.14%
1 Week Price Chg	-0.62%	0.29%	1.65%	-1.15%	-1.83%	1.43%
4 Week Price Chg	-2.61%	-4.27%	0.36%	-3.42%	-7.29%	-0.03%
12 Week Price Chg	-3.59%	-7.49%	4.39%	-7.80%	-12.47%	-1.55%
52 Week Price Chg	-5.06%	-3.48%	15.29%	15.51%	7.54%	-3.48%
20 Day Average Volume	469,173	804,479	1,992,841	2,727,791	3,875,063	804,479
(F1) EPS Est 1 week change	-0.13%	0.00%	0.00%	-0.26%	0.00%	0.00%
(F1) EPS Est 4 week change	0.08%	-0.12%	-0.02%	-0.94%	-1.16%	-0.10%
(F1) EPS Est 12 week change	-1.68%	-1.41%	-0.17%	-1.16%	-1.69%	-1.50%
(Q1) EPS Est Mthly Chg	-0.73%	0.00%	-0.48%	-1.28%	0.51%	0.24%

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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