Simon Property Group (SPG)

$147.77 (As of 01/17/20)

Price Target (6-12 Months): **$157.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 01/17/19)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: D	Momentum: D

Summary

Simon Property recently expanded the Happy Returns' service desks to 52 of its locations. This will enable increasing number of customers to return and exchange purchases made online for immediate credit. The expansion of the service is a strategic fit to drive traffic through online returns. Notably, the company is poised to gain from new development, redevelopment, expansion and acquisition efforts. With a strong balance sheet, it is investing billions to transform properties aimed at creating value, drive footfall and generate cash flow. Yet, decent upfront cost of implementing such moves will likely limit any robust near-term profit margin growth. Also, the retail market is expected to remain choppy with store closures and tenant bankruptcies ruling headlines for long. Its shares too have underperformed the industry in the past year.

Price, Consensus & Surprise

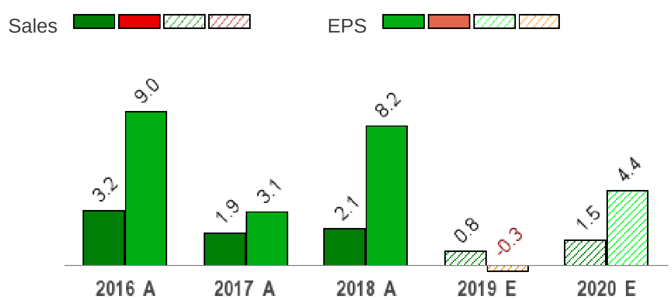
Data Overview

52 Week High-Low	**$186.44 - $142.40**
20 Day Average Volume (sh)	**1,346,094**
Market Cap	**$47.4 B**
YTD Price Change	**-0.8%**
Beta	**0.51**
Dividend / Div Yld	**$8.40 / 5.7%**
Industry	**REIT and Equity Trust - Retail**
Zacks Industry Rank	**Bottom 21% (200 out of 254)**

Last EPS Surprise	**0.0%**
Last Sales Surprise	**0.9%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/04/2020**
Earnings ESP	**0.3%**

P/E TTM	**12.0**
P/E F1	**11.7**
PEG F1	**2.6**
P/S TTM	**8.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,428 E	1,444 E	1,467 E	1,542 E	5,790 E
2019	1,453 A	1,397 A	1,417 A	1,473 E	5,706 E
2018	1,400 A	1,388 A	1,409 A	1,461 A	5,658 A

EPS Estimates

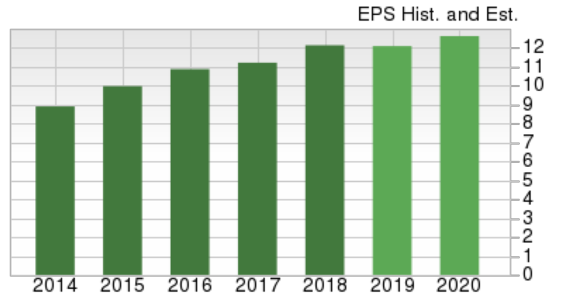
	Q1	Q2	Q3	Q4	Annual*
2020	$2.97 E	$3.08 E	$3.17 E	$3.41 E	$12.62 E
2019	$3.04 A	$2.99 A	$3.05 A	$2.95 E	$12.09 E
2018	$2.87 A	$2.98 A	$3.05 A	$3.23 A	$12.13 A

*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.

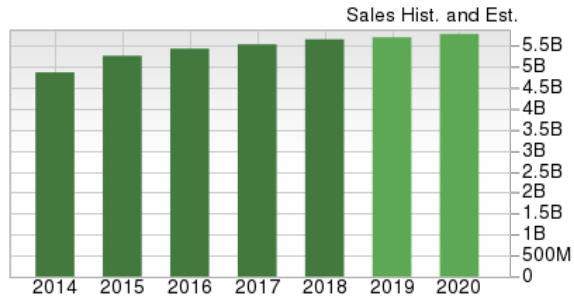
Overview

Headquartered in Indianapolis, IN, Simon Property Group Inc. is a leading publicly-traded real estate investment trust (REIT) in the United States, which is engaged in acquiring, owning and leasing of shopping, dining, entertainment and mixed-use destinations. The company's real estate portfolio consists of Malls, Premium Outlets and The Mills and International Properties.



As of Sep 30, 2019, Simon Property owned or held interests in 204 properties in the United States. This comprises 106 malls, 69 Premium Outlets, 14 Mills, four lifestyle centers, and 11 other retail properties in 37 states and Puerto Rico.

As of the same date, the company had ownership in 29 Premium Outlets and Designer Outlet properties mainly located in Asia, Europe, and Canada. Additionally, the company had 21.9% equity stake in Klépierre, a publicly-traded French real estate company that owns interest in shopping centers across 16 countries in Europe.



Furthermore, at the end of third-quarter 2019, the company had redevelopment and expansion projects, including the redevelopment of former department store spaces, ongoing at more than 30 properties in the United States, Asia and Europe.

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:

Simon Property's diversified exposure to retail assets in the United States and abroad, efforts to support omni-channel retailing, portfolio-restructuring initiatives and healthy balance sheet augur well.

- Simon Property enjoys a wide exposure to retail assets across the United States. Moreover, the company's international presence fosters sustainable long-term growth as compared with its domestically focused peers. The company's ownership stake in Klépierre facilitates the expansion of its global footprint, which gives it access to premium retail assets in the high barrier-to-entry markets of Europe. We believe that diversification, with respect to both product and geography largely insulates Simon Property from market volatility and helps it to consistently post a decent performance.

- Amid retail apocalypse narrative, adoption of an omni-channel strategy and successful tie-ups with premium retailers has been a saving grace for Simon Property. The company has been actively restructuring its portfolio, aiming at premium acquisitions and transformative redevelopments. In fact, for the past years, the company has been investing in billions to transform its properties focused on creating value and drive footfall at the properties. The transformational plans include addition of hotels, restaurants, residences and luxury stores. Additionally, the company is undertaking strategic measures to help online retailers fortify their physical presence. Moreover, the company's online retail platform, weaved with an omni-channel strategy, will likely be accretive to Simon Property's long-term growth. Also, Simon Property is exploring mixed-use development option which has gained immense popularity in recent years as it helps catch the attention of people who prefer to live, work and play in the same area. Its investments in best-in-class operators across the hospitality, health and wellness, dining and entertainment sectors, as part of its effort to bolster its consumer-facing entertainment and lifestyle platform augur well for long-term growth.

- The company has been active in restructuring its portfolio and is aiming at premium acquisitions and transformative redevelopments. In fact, at the end of third-quarter 2019, Simon Property had redevelopment and expansion projects, including the redevelopment of former department store spaces, ongoing at more than 30 properties in the United States, Asia and Europe. The company's share of costs of all new development and redevelopment projects under construction was around $1.8 billion at the end of the third quarter. The company has also resorted to micro-retail modeling that offers store units ranging from 20-200 square feet of space. With such a huge pipeline, the company is well poised to effectively leverage the improving spending habits of wealthier customers amid a healthy economy.

- Simon Property has a solid and improving balance sheet. The company exited third-quarter 2019 with cash and cash equivalents of $3.6 billion compared with the $514.3 million reported at the end of December 2018. During the third quarter, the company accomplished a three-tranche senior notes offering, aggregating $3.5 billion, having a weighted average coupon rate of 2.61% and weighted average term of 15.9 years. Moreover, subsequent to the quarter end, the company retired all or part of four series of senior notes totaling around $2.6 billion (USD equivalent). Following the senior notes repayment, Simon Property had more than $7 billion of liquidity. This comprised cash on hand, including available capacity under the company's revolving credit facilities, and its share of joint-venture cash.

- Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Simon Property remains committed to that. Concurrent with its second-quarter 2019 earnings release, the company announced a quarterly dividend of $2.10 per share, denoting an increase of 2.4% sequentially and 5% year over year. Thereafter, the company has maintained the same dividend rate. In fact, the company has steadily raised its dividend over the past years, increasing from $3.50 in 2011 to the present annualized rate of $8.40 per share. Such moves boost investors' confidence in the stock. Moreover, the company has resorted to share buybacks and in the first-quarter of 2019, the company's board of directors has authorized a new $2 billion common stock-repurchase program. The shares may be repurchased in the open market or in privately negotiated transactions, over the next 24 months, depending on market conditions. During the second quarter, the company repurchased nearly 1.05 million shares of its common stock while in the third quarter, the company bought back more than 1.15 million shares of its common stock.

Reasons To Sell:

Shrinking footfall at malls amid shift of consumers toward online channels, store closures and bankruptcy of retailers will likely keep denting any robust growth of the company in the near term.

- With the shift in consumers' preferences toward online channels for purchases, bankruptcies and store closures have emerged as pressing concerns for retail REITs and Simon Property is not immune to such choppy environment. Though the company is striving to counter this pressure through various initiatives, implementation of such measures requires a decent upfront cost and therefore, will limit any robust growth in profit margins in the near term.

- 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.

- At the end of third-quarter 2019, Simon Property had redevelopment and expansion projects, including the redevelopment of former department store spaces, ongoing at more than 30 properties in the United States, Asia and Europe. The company's share of costs of all new development and redevelopment projects under construction was around $1.8 billion at the end of the third quarter. This increases operational risks, exposing the company to rising construction costs, entitlement delays and lease-up risks.

- Shares of Simon Property have declined 15% in the past year, as against the industry's growth of 8.8%. Moreover, the trend in 2020 FFO per share estimate revisions does not indicate an upbeat outlook for the company, as estimates have remained unchanged over the past month. Therefore, given the above-mentioned concerns and lack of any positive estimate revisions, there is limited upside potential to the stock.

Last Earnings Report

Simon Property Q3 FFO Meets, Revenues Beat Estimates

Quarter Ending	09/2019
Report Date	Oct 30, 2019
Sales Surprise	0.94%
EPS Surprise	0.00%
Quarterly EPS	3.05
Annual EPS (TTM)	12.31

Simon Property Group's third-quarter 2019 FFO per share of $3.05 per share came in line with the Zacks Consensus Estimate as well as the year-ago quarter's reported tally.

Further, the company generated revenues of nearly $1.42 billion in the quarter, which surpassed the Zacks Consensus Estimate by 0.9%. The revenue figure also comes in marginally higher than the prior-year quarter's reported tally.

Results reflect increase in leasing spread per square foot at the company's U.S. malls and Premium Outlets.

Inside the Headline Numbers

For the U.S. Malls and Premium Outlets portfolio, occupancy was 94.7% as of Sep 30, 2019. Retailer sales per square foot came in at $680 for the trailing 12-month period, marking 4.5% growth. Base minimum rent per square feet was $54.55 as of Sep 30, 2019. Furthermore, leasing spread per square foot for the trailing 12-month period ended Sep 30, 2019 increased 22.2% to $12.10.

Total portfolio net operating income (NOI) growth for the reported quarter came in at 1.3%. Comparable-property NOI growth for the same period came in at 1.6%.

During the July-September quarter, the company commenced construction on a 338,000-square-foot upscale outlet in Jenks (Tulsa), OK, slated to open in spring 2021. Simon Property owns 100% of this project.

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Balance Sheet Position

The company exited third-quarter 2019 with cash and cash equivalents of $3.6 billion compared with the $514.3 million reported at the end of December 2018.

Notably, during the third quarter, the company accomplished a three-tranche senior notes offering, aggregating $3.5 billion, having a weighted average coupon rate of 2.61% and weighted average term of 15.9 years. Moreover, following the quarter end, the company retired all or part of four series of senior notes totaling around $2.6 billion (USD equivalent).

Following the senior notes repayment, Simon Property had more than $7 billion of liquidity. This comprised cash on hand, including available capacity under the company's revolving credit facilities, and its share of joint-venture cash.

Moreover, during the third quarter, the company repurchased more than 1.15 million shares of its common stock.

Outlook

Simon Property expects 2019 FFO per share in the range of $12.00-$12.05. Further, the company estimates comparable FFO per share in the range of $12.33-$12.38, reflecting a 3-cent increase to the bottom end of the company's prior guided range.

Recent News

Simon Extends Online Return Services to 52 Centers – Jan 16, 2020

Simon Property announced the expansion of online return services available at its malls to several other locations. The presence of the Happy Returns service at the participating centers will enable an increasing number of customers to return and exchange purchases made online at malls where Simon Guest Services is available.

Simon Property signed up for the program in 2017 at five of its properties in a bid to attract online purchasers back into brick-and mortar retailing, before recently expanding these services to 52 locations. With this, the company has the largest network of Return Bar counters in the shopping-center industry.

Using Happy Returns' services, shoppers will be able to return online purchases made from select retailers to the Simon Guest Services desk, with an immediate credit. Hence, customers can omit the lengthy return process of packing and shipping items. Moreover, refunds can be made faster.

While customers can experience an easy return process, it also provides them an opportunity to find what they need at Simon Property's retail centers. Notably, there is a high probability of shoppers making returns to make additional purchases from malls. Hence, the expansion of the service is a strategic fit to drive traffic through online returns.

Simon Makes Investments to Boost Entertainment and Lifestyle Platform – Oct. 28, 2019

As part of its efforts to bolster the company's consumer-facing entertainment and lifestyle platform, Simon Property recently announced latest investments in best-in-class operators across the hospitality, health and wellness, dining and entertainment sectors. Together with the company's tie up with Rue Gilt Groupe focused on digital value shopping, including its new marketplace shoppremiumoutlets.com, these strategic investments are aimed at complementing Simon's core real estate by bringing together new experiential businesses to markets across the country.

Notably, the company's portfolio now comprises equity investments in a varied collection of consumer brands. These includes the healthy lifestyle brand Life Time; dining and entertainment trend-setter Pinstripes; e-gaming innovators Allied Esports; the seminal Sports Illustrated brand; and Major Food Group's well-known casual Italian dining destination, PARM®. It also accomplished a recent minority investment in Soho House, the global membership subscription business with Houses in London, mainland Europe, Asia and America.

Encouragingly, Life Time is scheduled to open its latest Life Time athletic resort, Life Time Sport and Life Time Work coworking space on December 3rd at Southdale Center (Edina, MN). Moreover, at least 10 more Life Time destinations at Simon locations are likely to follow. Also, Pinstripes debuted at The Shops at Clearfork and will soon come up at Phipps Plaza (Atlanta, GA), Stoneridge Shopping Center® (Pleasanton, CA) and St. Johns Town Center® (Jacksonville, FL). Further, PARM® is slated to open its first location outside New York City at renowned Woodbury Common Premium Outlets® in early 2020.

Simon Ties Up With Rue Gilt for Digital Value Shopping Platform – Oct 2, 2019

Simon Property recently joined forces with Rue Gilt Groupe (RGG), which is backed by e-commerce entrepreneur Michael Rubin, to start a new multi-platform venture for digital value shopping.

Combining Simon's in-store retail leadership with RGG's e-commerce expertise, this new venture will include RGG's Rue La La and Gilt platforms together with Simon's new online outlet marketplace — Shop Premium Outlets (SPO).

Around $280 million will be contributed by Simon to this new venture. This will also include the value of Shop Premium Outlets that has been successfully beta tested since March this year. Simon and Rubin will emerge as equal partners in Rue Gilt Groupe as well as the new online outlet marketplace, ShopPremiumOutlets.com.

The latest venture will be promoted by Simon over the coming year, by using part of its more than $100-million annual marketing budget. Also, it will benefit from access to two billion annual shopper visits. Moreover, the partnership will capitalize on the pooled databases of Simon and RGG touching more than 35 million shoppers. The move is a strategic fit as the combined company is poised to exceed $1 billion in online sales.

With a debut on Oct 2, SPO is set to deliver top-notch brands at outlet pricing. Presently, SPO includes more than 2,000 designers and 300,000 products. Further, with additions of new enhancements to the site, several other merchants are expected to join in the upcoming period.

Simon Property Announces Jockey's First Pop-Up Store – Sep 4, 2019

Simon Property Group announced the opening of Jockey International's first-ever pop-up retail store at The Edit @ Roosevelt Field. The 1,700-square-foot store at Simon's turnkey retail platform will open to shoppers in September and run through January 2020.

The pop-up retail store of this 143-year-old brand reputed for high-quality underwear and apparel will showcase a contemporary collection of men's and women's undergarments, activewear, sleepwear and loungewear, together with the popular underwear bar.

Notably, Jockey International is the fifth retailer to enjoy occupancy of an abundantly-visible space in one of the premier centers in the United States for product testing and customers' interaction in a new format. Among the other retailers which recently announced the opening of their stores with Simon nationwide are Egg Baby, Clientele, Revtown USA, and Hope & Henry.

Particularly, Simon Property's The Edit @ Roosevelt Field is a retail platform that is bringing iconic brands, enabling emerging brands to pilot fresher products in an interactive and experiential retail space as well help brands that currently have only an online presence to set foot in the physical-store space through pilot stores in the mall. Such concepts for the retail real estate are aimed at grabbing interest of the tech-savvy population and drive footfall.

Dividend Update

On Oct 30, concurrent with its third-quarter 2019 earnings release, Simon Property announced a quarterly dividend of $2.10 per share, flat sequentially, and up 5% year over year. This dividend was paid on Nov 29, to stockholders of record as of Nov 15, 2019.

Valuation

Simon Property's shares have declined 15% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.8% and 11.7% in the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 11.69X forward 12-month FFO, which compares to 15.09X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.2X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.84X and as low as 11.42X, with a 5-year median of 14.54X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $157 price target reflects 12.42X FFO.

The table below shows summary valuation data for SPG.

Valuation Multiples - SPG

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.69	15.09	14.73	19.2
	5-Year High	20.84	19.44	16.21	19.34
	5-Year Low	11.42	12.57	12.01	15.17
	5-Year Median	14.54	15.13	13.98	17.44
P/S F12M	Current	8.2	8.35	6.53	3.57
	5-Year High	12.55	13.91	6.61	3.57
	5-Year Low	7.8	7.13	5.2	2.54
	5-Year Median	9.74	8.34	6.04	3
P/B TTM	Current	15.59	3.37	2.86	4.55
	5-Year High	16.67	5.57	2.89	4.55
	5-Year Low	8.98	2.83	1.83	2.85
	5-Year Median	12.08	3.44	2.51	3.61

As of 01/17/2020

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

Top Peers

CBL & Associates Properties, Inc. **(CBL)**	Neutral
Federal Realty Investment Trust **(FRT)**	Neutral
Kimco Realty Corporation **(KIM)**	Neutral
Macerich Company (The) **(MAC)**	Neutral
Tanger Factory Outlet Centers, Inc. **(SKT)**	Neutral
Taubman Centers, Inc. **(TCO)**	Neutral
Washington Prime Group Inc. **(WPG)**	Neutral
Pennsylvania Real Estate Investment Trust **(PEI)**	Underperform

Industry Comparison Industry: Reit And Equity Trust - Retail

Industry Peers

	SPG Neutral	X Industry	S&P 500	FRT Neutral	KIM Neutral	MAC Neutral
VGM Score	D	-	-	F	F	D
Market Cap	47.35 B	2.80 B	24.65 B	9.78 B	8.56 B	3.64 B
# of Analysts	7	5.5	13	6	9	5
Dividend Yield	5.68%	4.63%	1.73%	3.24%	5.53%	11.65%
Value Score	C	-	-	F	D	C
Cash/Price	0.08	0.03	0.04	0.02	0.02	0.03
EV/EBITDA	16.52	16.00	14.11	22.32	15.48	14.31
PEG Ratio	2.63	4.04	2.08	4.30	3.32	5.26
Price/Book (P/B)	15.59	2.06	3.39	4.05	1.72	1.25
Price/Cash Flow (P/CF)	12.49	12.58	13.81	19.68	10.57	8.67
P/E (F1)	11.72	14.52	19.19	19.91	13.46	7.16
Price/Sales (P/S)	8.27	6.00	2.69	10.50	7.46	3.90
Earnings Yield	8.53%	6.88%	5.21%	5.03%	7.45%	13.98%
Debt/Equity	8.77	1.05	0.72	1.42	1.09	1.77
Cash Flow ($/share)	11.83	2.26	6.94	6.58	1.92	2.97
Growth Score	D	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	6.96%	2.99%	10.56%	5.36%	-0.12%	0.04%
Proj. EPS Growth (F1/F0)	4.38%	2.38%	7.57%	2.47%	2.48%	1.64%
Curr. Cash Flow Growth	11.00%	3.10%	14.73%	-3.92%	2.71%	-20.68%
Hist. Cash Flow Growth (3-5 yrs)	7.40%	9.77%	9.00%	10.61%	9.77%	-4.36%
Current Ratio	3.34	1.06	1.24	1.52	NA	0.78
Debt/Capital	89.72%	51.19%	42.99%	57.94%	52.18%	63.96%
Net Margin	40.23%	24.75%	11.14%	28.01%	33.95%	8.76%
Return on Equity	66.93%	5.94%	17.16%	11.09%	7.36%	2.69%
Sales/Assets	0.18	0.13	0.55	0.15	0.10	0.10
Proj. Sales Growth (F1/F0)	1.48%	2.16%	4.16%	4.05%	1.23%	2.86%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	-0.52%	0.04%	0.27%	0.21%	-0.34%	-0.69%
1 Week Price Chg	-0.39%	-0.42%	0.39%	-0.17%	-2.07%	-3.25%
4 Week Price Chg	1.66%	1.30%	2.95%	1.30%	-1.31%	-5.54%
12 Week Price Chg	-4.32%	-4.32%	7.76%	-7.16%	-4.21%	-8.00%
52 Week Price Chg	-14.72%	6.30%	22.29%	3.13%	22.40%	-43.93%
20 Day Average Volume	1,346,094	738,236	1,536,375	353,444	3,095,012	2,914,876
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.08%	-0.19%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.42%	-0.63%	0.00%
(F1) EPS Est 12 week change	-0.59%	-0.59%	-0.40%	-2.47%	-0.49%	-0.74%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.08%	-1.83%	0.00%

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	C
Growth Score	D
Momentum Score	D
VGM Score	D

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

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