

## Vornado Realty Trust (VNO)

**\$67.27** (As of 01/16/20)

Price Target (6-12 Months): **\$71.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: F

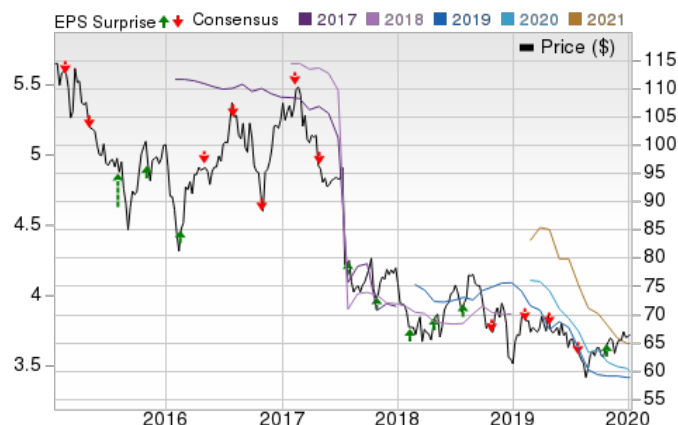
Growth: F

Momentum: D

### Summary

Vornado announced a special dividend of \$1.95 per share in December 2019. This resulted from prior dispositions and sale of interests in assets. Such capital-deployment efforts boost shareholder confidence in the stock. It owns a portfolio of premium assets in high-rent, high barrier-to-entry markets. Further, amid resilient economy and decent job-market environment, demand for Vornado's office spaces is expected to remain healthy. The company's strong balance sheet also supports its growth endeavors. In addition, it is redeploying sale proceeds to fund strategic buyouts and redevelopments. However, Vornado's shares have underperformed the industry over the past year. Also, the earnings dilutive impact from significant asset sales cannot be bypassed in the near term. Store closures and retail tenant bankruptcy are other concerns.

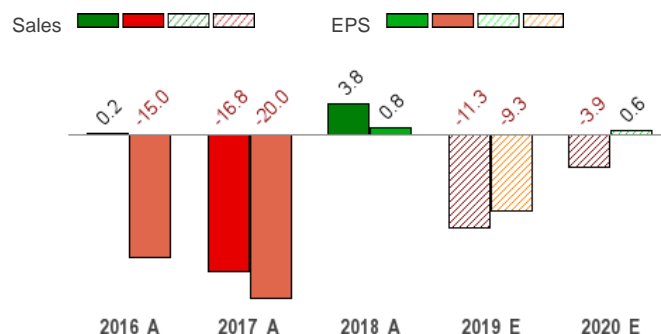
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$70.54 - \$58.60</b>
20 Day Average Volume (sh)	<b>924,457</b>
Market Cap	<b>\$12.8 B</b>
YTD Price Change	<b>1.2%</b>
Beta	<b>0.98</b>
Dividend / Div Yld	<b>\$2.64 / 3.9%</b>
Industry	<b><a href="#">REIT and Equity Trust - Other</a></b>
Zacks Industry Rank	<b>Bottom 31% (176 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>2.3%</b>
Last Sales Surprise	<b>-0.4%</b>
EPS F1 Est- 4 week change	<b>-2.1%</b>
Expected Report Date	<b>02/10/2020</b>
Earnings ESP	<b>2.1%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	450 E	453 E	459 E	463 E	1,844 E
2019	535 A	463 A	466 A	460 E	1,919 E
2018	536 A	542 A	542 A	543 A	2,164 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.78 E	\$0.86 E	\$0.88 E	\$0.90 E	\$3.43 E
2019	\$0.79 A	\$0.91 A	\$0.89 A	\$0.83 E	\$3.41 E
2018	\$0.91 A	\$1.10 A	\$0.97 A	\$0.90 A	\$3.76 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>19.3</b>
P/E F1	<b>19.6</b>
PEG F1	<b>3.9</b>
P/S TTM	<b>6.4</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

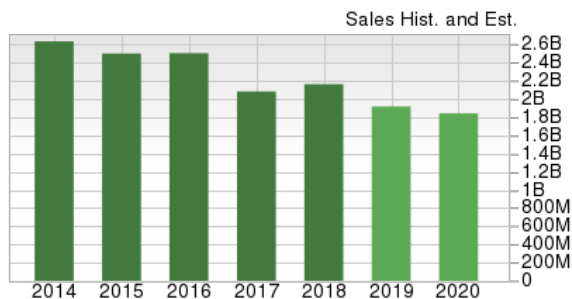
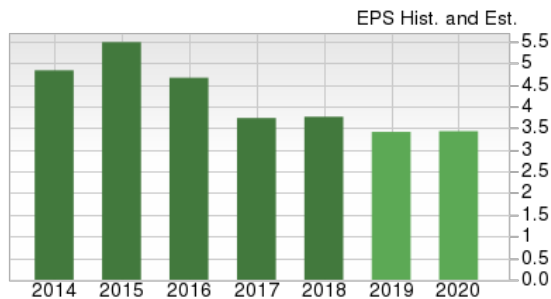
## Overview

New York-based Vornado Realty Trust, a real estate investment trust (REIT), is the owner and manager of the commercial real estate in the United States, with a portfolio concentrated in the New York City. The company's portfolio mainly includes office and retail properties. In addition, the company has theMART in Chicago and 555 California Street property in San Francisco. The company owns and manages more than 26 million square feet of Leadership in Energy and Environmental Design (LEED) certified buildings.

Notably, in January 2015, Vornado completed the spin-off of Urban Edge Properties. This company has a stake in strip shopping centers, malls and Warehouse Park that were previously under Vornado's ownership.

In addition to this, in July 2017, Vornado completed the spin-off of its Washington, DC segment. This included 37 office properties aggregating more than 11.1 million square feet, five multi-family properties with 3,133 units and five other assets totaling around 406,000 square feet of space. Also, it comprised 18 future development assets aggregating more than 10.4 million square feet of estimated potential development density as well as \$412.5 million of cash to JBG SMITH Properties (JBGS).

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.



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## Reasons To Buy:

- ▲ Vornado boasts a concentration of high-quality assets and a strategic focus on expanding its market share in New York City office and Manhattan street retail. In addition, the company has controlling interest in 555 California Street, in the heart of San Francisco's Financial District and owns theMART in Chicago's River North District, which are iconic office assets in signature cities. This focus on having assets in such a few select high-rent, high barrier-to-entry geographic markets as well as a diversified tenant base that includes several industry bellwethers are expected to drive steady cash flows and fuel its growth engine over the long term.
- ▲ The low-unemployment rates and modest wage improvement suggest a decent economy. Amid this, the national office market continues to witness disciplined growth. Moreover, continued job creation in office-using sectors is driving leasing activity and absorption levels of the U.S. office market. This trend is likely to continue in the near term as well. Hence, this is an opportune moment for Vornado to leverage on the favorable environment and offer real estate support to the office sector. Particularly, over the past five years, Vornado witnessed improvement in same-store net operating income (NOI) (cash basis) at a CAGR of 7.1% (2013-2018). The company is anticipated to benefit from the favorable macro-economic trends and industrial tailwinds in the upcoming quarters as well.
- ▲ Vornado, focused on improving its core business, is making opportunistic acquisitions and divestitures in addition to business spin-offs. In fact, strategic sell-outs amid strong pricing environment provide the company with the dry powder to reinvest in opportunistic acquisitions and redevelopments. Such timely portfolio-repositioning initiatives will drive its growth over the long term. Moreover, Vornado is constructing a residential tower — 220 Central Park South (CPS) — with 397,000 salable square feet of space. In the nine months ended Sep 30, 2019, the company sold 37 condominium units at the property and anticipates to generate net cash of around \$2 billion from the completed sale. Sale proceeds will be redeployed in the Penn District redevelopment project, and contribute to the company's liquidity and cash flow.
- ▲ Vornado boasts an investment-grade balance sheet with well-laddered debt maturities. Also, as of Sep 30, 2019 the company had cash and cash equivalents of \$1.1 billion. Additionally, unencumbered assets amounted to around \$9 billion, while weighted average debt maturity stood at 3.6 years. Hence, a flexible financial position will enable the company to take advantage of future investment opportunities and fund its development projects.
- ▲ Furthermore, dividend payouts are arguably the biggest enticement for REIT investors and in January 2019, Vornado announced a 4.8% hike in common share dividends. Such capital-deployment efforts also highlight the company's operational strength. Moreover, in December 2019, the company announced a special dividend of \$1.95 per share.

Vornado's high-quality assets, portfolio-repositioning strategy and strong balance sheet support its growth. Healthy office real estate market fundamentals and strong New York business bode well.

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## Reasons To Sell:

- ▼ As part of portfolio-repositioning efforts, Vornado has been aggressively disposing of its assets. In fact, since the beginning of 2019 through October, the company executed more than \$3.1 billion in asset sales. Further, the spin-off of its Washington, DC segment made Vornado a New York-based office and retail REIT. Earlier, the company also spun-off its shopping center business creating Urban Edge Properties – a publicly traded REIT. The streamlining efforts are a strategic fit and anticipated to propel growth over the long term. However, the earnings dilutive impact cannot be bypassed in the near term.
- ▼ Vornado faces intense competition from developers, owners and operators of office properties and other commercial real estates, including sublease space available from its tenants. This influences the company's ability to attract and retain tenants at relatively higher rents than its competitors, thereby adversely affecting its long-term profitability.
- ▼ The company has a significant asset concentration in the New York City. In fact, the company's properties in the New York City metropolitan area contributed to 86% of its NOI in third-quarter 2019. Hence, any decline in the economy or a fall in real estate markets in the region would hurt the company's financial performance and the value of its properties.
- ▼ Though upbeat consumer confidence and a healthy economy have infused optimism into the retail market, mall traffic continues to suffer amid 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. Additionally, retailers that are not being able to cope with competition are filing bankruptcies. This has emerged as a pressing concern for Vornado, as the trend is curtailing leasing velocity for retail real estate space. In the second quarter, Topshop's store closures at Vornado's two locations 608 Fifth Avenue and 478 Broadway. This, along with Forever 21's bankruptcy, is expected to impact the company's FFO growth in the near term.
- ▼ While interest rates levels are currently low, any hike in interest rate can also pose a challenge for Vornado. 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 compared with the yields on fixed income and money market accounts.
- ▼ Shares of Vornado have underperformed the industry it belongs to over the past year. The stock has rallied 1.3% compared with the industry's growth of 17.6%. Also, the trend in estimate revisions of 2019 FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2019 FFO per share has remained unchanged over the past month. Therefore, given the above-mentioned concerns and lack of positive estimate revisions, the stock has a limited upside potential.

Earnings dilution led by high disposition activity, retail store closures and tenant bankruptcies as well as intense competition from developers and operators remain causes of concern for Vornado.

## Last Earnings Report

### Vornado's Q3 FFO Beat Estimates, Revenues Down Y/Y

Vornado reported third-quarter 2019 FFO plus assumed conversions, as adjusted of 89 cents per share, surpassing the Zacks Consensus Estimate of 87 cents. However, the reported figure fell 7.3% year over year.

At the end of the third quarter, the company's 555 California Street property was fully occupied. Further, total same-store NOI in the New York portfolio and 555 California buoyed the company's performance.

However, total revenues came in at \$465.9 million in the reported quarter, missing the Zacks Consensus Estimate of \$467.8 million. Moreover, the revenue figure compared unfavorably with the year-ago tally of \$542 million.

### Behind the Headline Numbers

In the New York portfolio, 197,000 square feet of office space (171,000 square feet of space at share) and 26,000 square feet of retail space (24,000 square feet of space at share) were leased during the September-end quarter. Also, 45,000 square feet of area was leased in theMart and 50,000 square feet was leased at 555 California Street (35,000 square feet at share).

At the end of the third quarter, occupancy in the New York portfolio came in at 96.8%, shrinking 30 basis points (bps) sequentially, and 50 bps year over year. Occupancy in theMART was 95%, up 20 bps sequentially but down 50 bps year over year. Furthermore, occupancy in 555 California Street was 100%, expanding 50 bps sequentially, and 60 bps year over year.

During the reported quarter, total same-store NOI inched up 0.9% year over year. Same-store NOI in the company's New York portfolio and 555 California grew 0.5% and 13.9% year over year, respectively. However, the same for theMART declined 2.8% year over year.

As of Sep 30, 2019, Vornado had nearly \$1.1 billion of cash and cash equivalents, up from \$570.9 million as of the prior-year end.

Quarter Ending **09/2019**

Report Date	<b>Oct 28, 2019</b>
Sales Surprise	<b>-0.40%</b>
EPS Surprise	<b>2.30%</b>
Quarterly EPS	<b>0.89</b>
Annual EPS (TTM)	<b>3.49</b>

## Recent News

### Vornado Realty Announces Special Dividend – Dec 18, 2019

Vornado Realty announced a special dividend of \$1.95 per share. The dividend was paid on Jan 15, 2020, to stockholders of record on Dec 30, 2019. Notably, \$1.74 of the special dividend classifies as long-term capital gain.

Particularly, the special dividend from Vornado comes owing to gains from the transfer of a 45.4% common equity interest in its portfolio of high-street retail assets on Upper Fifth Avenue and Times Square, its 25% interest sale in 330 Madison Avenue, as well as other asset sales disclosed previously. These were, however, partly offset by a tax deduction, resulting from its prior investment in Toys “R” Us.

### Vornado Refinances \$800M Loan for 650 Madison Avenue – Dec 2, 2019

Vornado announced that its 20.1% owned joint venture has accomplished refinancing of an \$800-million loan for 650 Madison Avenue. The interest-only loan carries a fixed rate of 3.486%. The move is a strategic fit as it helps boost the company's financial position.

The 10-year loan will mature in December 2029, and replace a previous \$800-million loan, which had an interest at a fixed rate of 4.39% and was slated to mature in October 2020. Notably, the refinancing has been done for the 600,000-square-foot office and retail property in Manhattan.

### Dividend Update

On Jan 15, Vornado announced a quarterly cash dividend of 66 cents per share. The dividend will be paid on Feb 14, to shareholders of record as of Jan 27, 2020.

## Valuation

Vornado's shares have inched up 1.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Finance sector have gained 17.6% and 10.6% over the past year.

The S&P 500 Index is up 22.3% over the past year.

The stock is currently trading at 19.44X forward 12-month FFO, which compares to 18.06X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.97X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.61X and as low as 14.63X, with a 5-year median of 18.33X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$71 price target reflects 20.52X FFO.

The table below shows summary valuation data for VNO

Valuation Multiples - VNO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.44	18.06	14.79	18.97
	5-Year High	22.61	18.94	16.21	19.34
	5-Year Low	14.63	14.29	12.01	15.17
	5-Year Median	18.33	16.11	13.98	17.44
P/S F12M	Current	6.96	8.2	6.53	3.53
	5-Year High	8.34	8.2	6.61	3.53
	5-Year Low	5.12	5.9	5.2	2.54
	5-Year Median	6.82	6.88	6.04	3
P/B TTM	Current	1.88	2.82	2.83	4.5
	5-Year High	3.68	2.92	2.89	4.5
	5-Year Low	1.7	2.06	1.83	2.85
	5-Year Median	3.04	2.52	2.5	3.61

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



## Top Peers

American Assets Trust, Inc. (AAT)	Neutral
Armada Hoffer Properties, Inc. (AHH)	Neutral
Global Net Lease, Inc. (GNL)	Neutral
JBG SMITH Properties (JBGS)	Neutral
Lexington Realty Trust (LXP)	Neutral
VEREIT Inc. (VER)	Neutral
W.P. Carey Inc. (WPC)	Neutral
Washington Real Estate Investment Trust (WRE)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	VNO Neutral	X Industry	S&P 500	JBGS Neutral	VER Neutral	WPC Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>D</b>	<b>F</b>	<b>D</b>
Market Cap	12.84 B	3.05 B	24.61 B	5.44 B	10.16 B	14.34 B
# of Analysts	6	4	13	2	4	2
Dividend Yield	3.92%	4.06%	1.74%	2.22%	5.78%	4.99%
<b>Value Score</b>	<b>F</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Cash/Price	0.10	0.03	0.04	0.05	0.11	0.02
EV/EBITDA	16.08	17.73	14.24	20.20	17.06	20.78
PEG Ratio	3.90	3.67	2.07	4.30	1.41	6.37
Price/Book (P/B)	1.88	1.72	3.38	1.59	1.32	2.06
Price/Cash Flow (P/CF)	18.90	14.87	13.75	18.95	16.15	17.63
P/E (F1)	19.69	15.63	19.09	22.40	14.46	16.59
Price/Sales (P/S)	6.40	6.99	2.68	8.42	8.16	12.00
Earnings Yield	5.10%	6.40%	5.24%	4.46%	6.93%	6.03%
Debt/Equity	1.10	0.88	0.72	0.48	0.78	0.87
Cash Flow (\$/share)	3.56	2.27	6.94	2.14	0.59	4.72
<b>Growth Score</b>	<b>F</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	-9.15%	3.10%	10.56%	NA	-6.30%	3.95%
Proj. EPS Growth (F1/F0)	0.50%	4.26%	7.57%	9.04%	-4.59%	1.21%
Curr. Cash Flow Growth	-7.61%	13.18%	14.73%	191.88%	-28.37%	28.14%
Hist. Cash Flow Growth (3-5 yrs)	3.88%	18.05%	9.00%	NA	235.13%	28.70%
Current Ratio	4.61	1.27	1.24	2.94	0.92	0.67
Debt/Capital	51.97%	46.68%	42.99%	32.66%	43.74%	46.59%
Net Margin	151.59%	13.72%	11.14%	4.94%	-27.65%	30.89%
Return on Equity	4.90%	4.54%	17.16%	0.99%	-4.76%	5.31%
Sales/Assets	0.11	0.13	0.55	0.11	0.09	0.08
Proj. Sales Growth (F1/F0)	-3.92%	4.82%	4.16%	4.76%	0.13%	6.74%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>B</b>	<b>D</b>	<b>C</b>
Daily Price Chg	0.37%	0.86%	0.89%	1.00%	0.32%	0.04%
1 Week Price Chg	0.64%	-0.04%	0.39%	-1.19%	0.98%	2.48%
4 Week Price Chg	0.00%	2.59%	2.65%	1.83%	3.37%	6.91%
12 Week Price Chg	4.26%	0.51%	7.55%	1.68%	-2.96%	-9.97%
52 Week Price Chg	2.89%	14.29%	22.12%	8.77%	23.00%	19.49%
20 Day Average Volume	924,457	497,680	1,536,375	579,537	7,569,903	610,036
(F1) EPS Est 1 week change	-0.73%	0.00%	0.00%	0.00%	-0.25%	0.00%
(F1) EPS Est 4 week change	-2.05%	0.00%	0.00%	0.00%	-0.25%	0.00%
(F1) EPS Est 12 week change	-3.76%	-0.34%	-0.40%	10.37%	0.25%	-0.71%
(Q1) EPS Est Mthly Chg	-2.22%	0.00%	0.00%	0.00%	0.00%	0.00%

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## 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.

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### 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	D
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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### Disclosures

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