

Vornado Realty Trust (VNO)

\$35.18 (As of 08/17/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

Vornado's disappointing results for the second quarter mirror declines in occupancy and same-store NOI across its portfolio. Nonetheless, in early August, the company leased 730,000 square feet of office space to Facebook at its Farley Building. Notably, properties in a few select high-rent markets are expected to drive steady cash flows over the long term. Further, Vornado has been undertaking portfolio-repositioning initiatives like assets sale, and reinvesting proceeds in developments and redevelopments. Also, the company has a strong balance sheet to sail through market disruptions. Yet, due to the pandemic it temporarily shut Hotel Pennsylvania and postponed trade shows at the MART for the remainder of 2020. This is likely to reduce rental income and impact occupancy. Also, its shares have underperformed the industry over the past year.

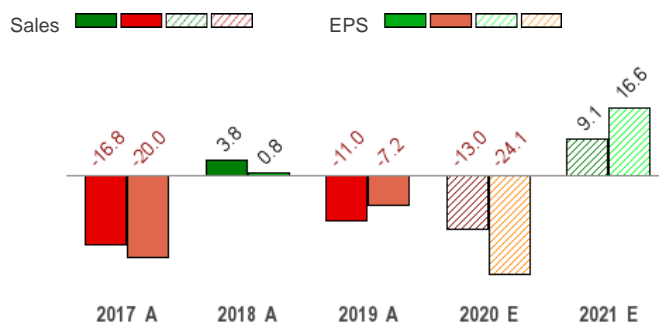
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.68 - \$27.64
20 Day Average Volume (sh)	1,949,964
Market Cap	\$6.7 B
YTD Price Change	-47.1%
Beta	1.33
Dividend / Div Yld	\$2.12 / 6.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 15% (213 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.7%
Last Sales Surprise	-6.1%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	10/26/2020
Earnings ESP	-6.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,828 E
2020	445 A	343 A	426 E	439 E	1,675 E
2019	535 A	463 A	466 A	461 A	1,925 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.71 E	\$0.78 E	\$0.82 E	\$0.82 E	\$3.09 E
2020	\$0.72 A	\$0.55 A	\$0.73 E	\$0.78 E	\$2.65 E
2019	\$0.79 A	\$0.91 A	\$0.89 A	\$0.89 A	\$3.49 A

*Quarterly figures may not add up to annual.

P/E TTM	11.5
P/E F1	13.3
PEG F1	2.6
P/S TTM	3.9

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

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, Chicago and San Francisco. The company's portfolio mainly includes office and street retail properties.

Moreover, the company owns the 1,700-room Hotel Pennsylvania situated on Seventh Avenue at 33rd Street in the Penn District and 32.4% stake in Alexander's, Inc. that owns seven properties in the greater New York metropolitan area, including 731 Lexington Avenue.

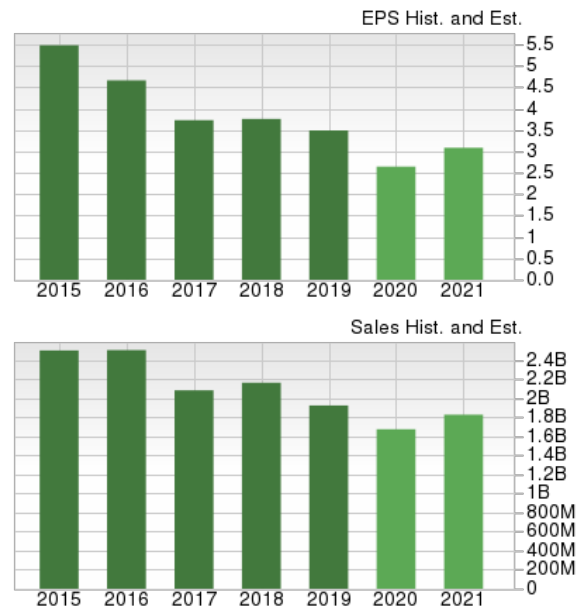
In addition, Vornado has theMART in Chicago and 555 California Street property in San Francisco. The company owns and manages more than 26 million square feet of Leadership in Energy and Environmental Design (LEED) certified buildings.

Vornado is constructing a residential condominium tower, 220 Central Park South (CPS), consisting of 397,000 salable square feet of space. The project's development costs (excluding land costs) are anticipated to be \$1.45 billion, of which the company spent \$1.42 billion as of Jun 30, 2020.

Notably, in January 2015, the company 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.

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:

- ▲ 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 over the long term. In fact, the company has collected 93% of its second-quarter rents from office tenants, while July rent collections trends are consistent with the second quarter.
- ▲ Much of the leasing proportion has shifted from new to renewal-oriented deals due to the pandemic. Going forward, the next cycle of office-space demand will likely be driven by de-densification to allow higher square footage per office worker and the need for better-amenitized office properties to focus on health & wellness amid social-distancing requirements. Moreover, tenant downsizing is less likely and this will improve tenant retention. Hence, Vornado is well-positioned to benefit from the emerging trend, given the demand for office space in Manhattan. In fact, as the market recovers from the pandemic, the company has modest office expiries through the end of 2022 in its New York portfolio.
- ▲ Vornado, focused on improving its core business, is making opportunistic developments and divestitures in addition to business spin-offs. In fact, strategic sell-outs provide the company with the dry powder to reinvest in opportunistic developments and redevelopments. Such timely portfolio-repositioning initiatives will drive its growth over the long term. Moreover, Vornado is constructing a residential tower — CPS — with 397,000 salable square feet of space. The company is using proceeds from 220 CPS unit sales to fund the active development projects at Penn District.
- ▲ Vornado has a strong balance sheet and ample liquidity to meet its short-term obligations. As of Jun 30, 2020, the company had \$3.6 billion in liquidity, consisting of \$1.7 billion available on its \$2.75-billion revolving credit facilities as well as \$1.9 billion of cash and cash equivalents, and restricted cash. Further, it expects receiving \$496 million from additional 220 CPS closings in the remaining year. This will likely boost its liquidity to \$4.3 billion. The company also has manageable debt maturities in 2020. Hence, a flexible financial position will enable it to take advantage of future investment opportunities and fund its development projects.

Vornado's premium assets in a few select high-rent, high barrier-to-entry markets will likely drive steady cash flows. Portfolio-repositioning initiatives augur well for long-term growth.

Reasons To Sell:

- ▼ Given high exposure in New York City (86% of its net operating income or NOI in the first half of 2020) and significant street retail, Vornado has been adversely impacted due to the COVID-19 pandemic. The company has temporarily shut its Hotel Pennsylvania and has postponed trade shows at theMART for the remainder of 2020. This along with lower revenues from Building Maintenance Services (BMS) and signage are expected to impact the company's near-term performance, including lower rental income and occupancy, resulting in less cash flow. Moreover, the company had \$48 million of uncollected rent in the second quarter, of which \$21 million was deferred. It also abated \$3 million and set up a \$9-million reserves for uncollectible. These resulted in a year-over-year decline in FFO.
- ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Vornado remained committed to that. However, in July, the company made a 30% sequential reduction in quarterly dividend to 53 cents per share due to uncertainties caused by the pandemic. The company paid out a quarterly cash dividend of 66 cents per share prior to the dividend cut.
- ▼ As part of portfolio-repositioning efforts, Vornado has been aggressively disposing of its assets. In fact, the company's financial results for 2019 were lower than the prior year, mainly due to more than \$3.2 billion of assets 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. Moreover, in the near term, the company expects to be more aggressive in the disposing of assets due to the continuous discount in its share price. 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.
- ▼ 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. Further, the coronavirus pandemic and measures to curb its spread are expected to adversely affect the demand for retail space, limiting the landlord's pricing power and resulting in lower absorption and rents. Moreover, the company has collected 72% of the second-quarter rent due from retail tenants, while many others are seeking rent relief amid the pandemic.
- ▼ Shares of Vornado have underperformed the industry it belongs to in the past year. The stock has plunged 42.7% compared with the industry's decline of 8%. Moreover, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company as estimates have been revised 1.5% downward over the past month. Given the above-mentioned concerns and the downward estimate revisions, the stock has 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 Realty's Q2 FFO & Revenues Miss Estimates

Vornado reported second-quarter 2020 FFO plus assumed conversions as adjusted of 55 cents per share, missing the Zacks Consensus Estimate of 74 cents. The reported figure also plunged 39.6% year over year.

A decline in same-store NOI in the New York portfolio, 555 California Street and theMART impacted the company's quarterly results.

Total revenues were \$343 million in the reported quarter, missing the Zacks Consensus Estimate of \$365.2 million. Moreover, the revenue figure compares unfavorably with the year-ago number of \$463.1 million.

During the reported quarter, the company collected 88% of rent due. This comprised collections of 93% from its office tenants and 72% from retail tenants.

Behind the Headline Numbers

In the New York portfolio, 304,000 square feet of office space (291,000 square feet of space at share) and 23,000 square feet of retail space (all at share) were leased during the June-end quarter. Also, 42,000 square feet of area (all at share) was leased at theMart and 5,000 square feet of space was leased at 555 California Street (3,000 square feet at share).

At the end of the June-end quarter, occupancy in the New York portfolio was 95.2%, which shrunk 150 basis points (bps) sequentially and 130 bps year over year. Occupancy in theMART was 91.4%, down 50 bps sequentially and 340 bps year over year. Furthermore, occupancy in 555 California Street was 99%, down 80 bps sequentially and 50 bps year over year.

During the reported quarter, total same-store NOI decreased 24.5% year over year. Same-store NOI in the company's 555 California Street declined 5%. The same at theMART and New York portfolio declined 42.5% and 23.4%, respectively.

During the April-June period, Vornado Realty closed the sale of four condominium units at 220 CPS for net proceeds amounting to \$157 million. This resulted in a financial statement net gain of \$55.7 million.

As of Jun 30, 2020, Vornado Realty had \$1.76 billion of cash and cash equivalents, up from the \$1.52 billion reported as of Dec 31, 2019.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	-6.07%
EPS Surprise	-25.68%
Quarterly EPS	0.55
Annual EPS (TTM)	3.05

Recent News

Vornado Leases 730,000 Square Feet to Facebook at Farley Building – Aug 3, 2020

Vornado announced that it secured a lease with Facebook for 730,000 square feet of office space at The Farley Building in the former's PENN DISTRICT located in Manhattan.

Facebook also leases office space at Vornado's 770 Broadway and Hudson Yards in New York City.

Vornado owns 10 million square feet at the new PENN DISTRICT. Farley extends from 8th to 9th Avenues and is adjacent to Penn Station. Close proximity to one of the busiest transportation hub has likely attracted the tenants to rent space at the property.

The property will enclose the Moynihan Train Hall along with 120,000 square feet of retail space with food and beverage, full-service restaurants and handpicked lifestyle brands. The project is anticipated to be completed in phases beginning by the end of 2020.

Vornado Eyes Recapitalization Opportunities at 1290 Avenue and 555 California Street – Jun 23, 2020

Vornado started a process to explore opportunities to recapitalize 1290 Avenue of the Americas and 555 California Street, either tighter or separately.

1290 Avenue of the Americas is a Manhattan office building spanning 2.1 million square feet of space, whereas 555 California Street is a three-building office campus in San Francisco spanning 1.8 million square foot. The company has 70% controlling interests in the partnerships that own these properties.

Dividend Update

On Jul 30, Vornado announced a quarterly cash dividend of 53 cents per share. The dividend indicates a decrease of around 20% from the prior payout of 66 cents. It will be paid out on Aug 21 to shareholders of record as of Aug 10, 2020.

Valuation

Vornado's shares have been down 42.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 8% and 7.2% in the past year, respectively.

The S&P 500 Index is up 15.8% in the past year.

The stock is currently trading at 11.70X forward 12-month FFO, which compares to 19.41X 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 22.41X and as low as 8.80X, with a 5-year median of 17.91X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 12.31X FFO.

The table below shows summary valuation data for VNO.

Valuation Multiples - VNO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.70	19.41	16.65	22.87
	5-Year High	22.41	19.41	16.65	22.87
	5-Year Low	8.80	14.32	11.60	15.25
	5-Year Median	17.91	16.11	14.26	17.58
P/S F12M	Current	3.80	8.40	6.22	3.71
	5-Year High	8.20	8.40	6.67	3.71
	5-Year Low	3.06	5.97	4.97	2.53
	5-Year Median	6.57	7.00	6.06	3.05
P/B TTM	Current	1.11	2.47	2.48	4.54
	5-Year High	3.63	3.03	2.91	4.56
	5-Year Low	0.88	1.81	1.72	2.83
	5-Year Median	2.99	2.51	2.53	3.74

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (213 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Americold Realty Trust (COLD)	Neutral	3
Lamar Advertising Company (LAMR)	Neutral	3
OUTFRONT Media Inc. (OUT)	Neutral	4
Healthpeak Properties, Inc. (PEAK)	Neutral	3
SBA Communications Corporation (SBAC)	Neutral	3
W.P. Carey Inc. (WPC)	Neutral	4
Pebblebrook Hotel Trust (PEB)	Underperform	5
Ryman Hospitality Properties, Inc. (RHP)	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	VNO	X Industry	S&P 500	JBGS	VER	WPC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	4
VGM Score	C	-	-	D	F	C
Market Cap	6.72 B	2.03 B	23.75 B	3.70 B	7.39 B	12.46 B
# of Analysts	2	4	14	1	6	2
Dividend Yield	6.03%	3.90%	1.62%	3.26%	4.49%	5.82%
Value Score	B	-	-	F	D	D
Cash/Price	0.27	0.06	0.07	0.20	0.04	0.01
EV/EBITDA	3.31	14.20	13.49	15.84	27.61	16.58
PEG Ratio	2.59	4.07	3.03	3.04	NA	NA
Price/Book (P/B)	1.11	1.33	3.18	1.07	1.11	1.83
Price/Cash Flow (P/CF)	11.28	10.97	12.85	13.89	37.58	14.52
P/E (F1)	13.08	15.50	22.17	22.84	11.28	15.31
Price/Sales (P/S)	3.92	4.90	2.49	5.82	6.23	10.26
Earnings Yield	7.50%	5.87%	4.32%	4.38%	8.89%	6.53%
Debt/Equity	1.32	0.92	0.77	0.64	0.89	0.90
Cash Flow (\$/share)	3.12	2.05	6.94	1.99	0.18	4.93
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	-10.76%	0.73%	10.44%	NA	-4.69%	0.73%
Proj. EPS Growth (F1/F0)	-24.21%	-2.05%	-5.97%	-24.84%	-12.34%	-6.40%
Curr. Cash Flow Growth	-12.13%	3.36%	5.22%	3.15%	-65.84%	11.73%
Hist. Cash Flow Growth (3-5 yrs)	-7.64%	12.74%	8.52%	NA	45.41%	13.35%
Current Ratio	6.93	1.62	1.33	7.69	1.78	0.25
Debt/Capital	55.59%	48.09%	44.59%	39.11%	47.05%	47.28%
Net Margin	21.78%	10.49%	10.13%	7.86%	-43.35%	28.17%
Return on Equity	2.23%	3.32%	14.51%	1.45%	-7.49%	4.98%
Sales/Assets	0.09	0.13	0.51	0.10	0.09	0.09
Proj. Sales Growth (F1/F0)	-12.97%	0.00%	-1.67%	0.00%	-7.20%	-3.77%
Momentum Score	D	-	-	A	D	A
Daily Price Chg	-1.12%	0.31%	-0.02%	-0.04%	2.24%	1.13%
1 Week Price Chg	0.08%	-0.94%	1.09%	-2.64%	2.76%	-1.60%
4 Week Price Chg	0.51%	6.48%	4.83%	-3.42%	8.72%	7.21%
12 Week Price Chg	3.02%	11.19%	13.09%	-3.73%	25.87%	17.67%
52 Week Price Chg	-42.69%	-20.05%	2.77%	-28.80%	-28.91%	-19.20%
20 Day Average Volume	1,949,964	623,291	1,932,479	391,188	8,873,390	669,006
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.62%	0.00%
(F1) EPS Est 4 week change	0.85%	0.00%	1.80%	-18.24%	-1.88%	0.00%
(F1) EPS Est 12 week change	-7.10%	-0.27%	2.88%	-22.19%	0.55%	8.71%
(Q1) EPS Est Mthly Chg	-2.13%	0.00%	0.80%	-29.27%	0.23%	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	B
Growth Score	D
Momentum Score	D
VGM Score	C

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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