

Vornado Realty Trust (VNO)

\$35.75 (As of 05/21/20)

Price Target (6-12 Months): **\$38.00**

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:D

Value: C

Growth: F

Momentum: B

Summary

Given the high exposure in New York City and retail sector, Vornado has been adversely impacted by the coronavirus pandemic. The company has temporarily shut its Hotel Pennsylvania and postponed trade shows at theMART for the remainder of 2020. Further, it has collected 83% of the April rent due, while many retail tenants are seeking rent relief. The company's lower-than-expected results in first-quarter 2020 were impacted by same-store net operating income (NOI) decline in the New York portfolio and at theMART. The company also witnessed a year-over-year decline in revenues. Also, shares of Vornado have underperformed the industry it belongs to over the past year. Nonetheless, the company focuses on having assets in a few select high-rent and high barrier-to-entry geographic markets. With ample liquidity, its balance sheet remains strong.

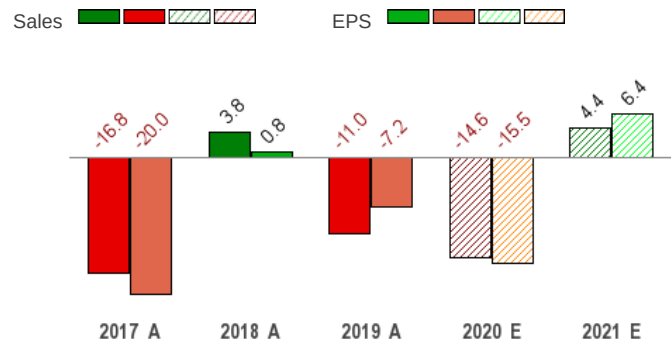
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.85 - \$27.64
20 Day Average Volume (sh)	3,273,814
Market Cap	\$6.8 B
YTD Price Change	-46.2%
Beta	1.48
Dividend / Div Yld	\$2.64 / 7.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 31% (80 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.3%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	-5.8%
Expected Report Date	08/03/2020
Earnings ESP	-2.8%
P/E TTM	10.5
P/E F1	12.2
PEG F1	2.4
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	425 E	428 E	432 E	436 E	1,716 E
2020	445 A	414 E	420 E	424 E	1,644 E
2019	535 A	463 A	466 A	461 A	1,925 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.74 E	\$0.77 E	\$0.77 E	\$3.14 E
2020	\$0.72 A	\$0.68 E	\$0.69 E	\$0.75 E	\$2.95 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/21/2020. The reports text is as of 05/22/2020.

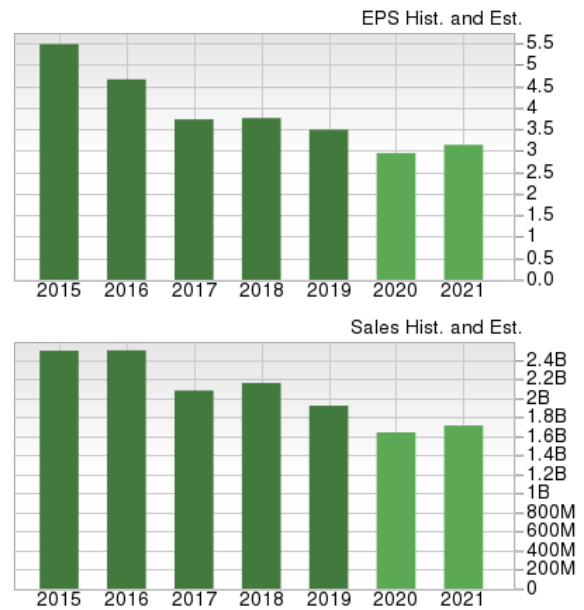
Overview

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 street 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.



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.
- ▲ Vornado, focused on improving its core business, is making opportunistic developments 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 developments 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. The company is using sale proceeds from 220 CPS 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 Mar 31, 2020, the company had \$3.4 billion in liquidity, consisting of \$1.7 billion available on its \$2.75-billion revolving credit facilities as well as \$1.7 billion of cash and cash equivalents, and restricted cash. Further, it expects receiving \$750 million from additional 220 CPS closings from May through the remaining year. This will likely boost its liquidity to more than \$4 billion. Also, Vornado's times interest earned ratio has been improving over the past five quarters, indicating its ability to cover interest expenses. 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.
- ▲ 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 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:

- ▼ 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. 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.
- ▼ Given high exposure in New York City 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. Other than essential businesses, materially all of its retail tenants had to close stores. The company has also deferred certain capital projects amounting to \$125 million. The actions are expected to impact the company's near-term performance, including lower rental income and occupancy, resulting in less cash flow. Specifically, Vornado expects \$9 million average monthly income reduction from the hotel shut down, canceled trade shows, reduced revenues from BMS cleaning services, lower income from parking garages and reduced third-party spot signage rentals. These represent 6% of the company's total revenues and management expects these businesses to rebound when tenancies return.
- ▼ 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 around 87% of its NOI in first-quarter 2020. Therefore, performance of the company is susceptible to the macroeconomic and political condition of New York City. Also, the company has been severely impacted by the coronavirus pandemic, given its significant exposure to New York City.
- ▼ 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. Further, the company has collected 53% of the April 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 over the past year. The stock has plunged 46.8% compared with the industry's decline of 13.6%. Moreover, the trend in estimate revisions of current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share moved 2.6% downward over the past month. Therefore, given the above mentioned concerns and 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 Q1 FFO Misses Estimates, Revenues Surpass

Vornado reported first-quarter 2020 FFO plus assumed conversions as adjusted of 72 cents per share, missing the Zacks Consensus Estimate of 76 cents. The reported figure declined 8.9% year over year.

Total same-store NOI in the New York portfolio as well as at theMART impacted the company's performance in the first quarter.

Total revenues were \$444.5 million in the reported quarter, outpacing the Zacks Consensus Estimate of \$429.7 million. However, the revenue figure compared unfavorably with the year-ago number of \$534.7 million.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	3.46%
EPS Surprise	-5.26%
Quarterly EPS	0.72
Annual EPS (TTM)	3.41

Behind the Headline Numbers

In the New York portfolio, 311,000 square feet of office space (297,000 square feet of space at share) and 15,000 square feet of retail space (13,000 square feet of space at share) were leased during the March-end quarter. Also, 231,000 square feet of area was leased at theMart and 6,000 square feet of space was leased at 555 California Street (4,000 square feet at share).

At the end of the first quarter, occupancy in the New York portfolio was 96.7%, flat sequentially, and expanding 70 basis points (bps) year over year. Occupancy in theMART was 91.9%, down 270 bps sequentially and 250 bps year over year. Furthermore, occupancy in 555 California Street was 99.8%, flat sequentially but up 40 bps year over year.

During the reported period, total same-store NOI decreased 2.5% year over year. In fact, same-store NOI in the company's 555 California Street improved 5.6%. The same at theMART and New York portfolio declined 13.3% and 1.9%, respectively. Amid the coronavirus pandemic, the company had to temporarily close its Hotel Pennsylvania and cancel trade shows, resulting in a same-store NOI decline in the New York portfolio and at theMART, respectively.

During the January-March period, Vornado closed the sale of seven condominium units at 220 CPS for net proceeds amounting to \$191.2 million. This resulted in a financial statement net gain of \$68.6 million.

As of Mar 31, 2020, Vornado had \$1.59 million of cash and cash equivalents, up from the \$1.51 million reported as of the prior-year end.

Recent News

Dividend Update

On Apr 29, Vornado announced a quarterly cash dividend of 66 cents per share. The dividend will be paid out on May 22 to shareholders of record as of May 11, 2020.

Valuation

Vornado's shares have been down 46.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 13.6% and 18.5% in the past year, respectively.

The S&P 500 Index has moved up 5.2% over the past year.

The stock is currently trading at 11.67X forward 12-month FFO, which compares to 16.87X for the Zacks sub-industry, 15.45X for the Zacks sector and 21.70X 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 18.12X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 12.40X FFO.

The table below shows summary valuation data for VNO.

Valuation Multiples - VNO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.67	16.87	15.45	21.7
	5-Year High	22.41	18.1	16.18	21.7
	5-Year Low	8.8	14.32	11.58	15.23
	5-Year Median	18.12	16.08	13.94	17.49
P/S F12M	Current	4.09	7.37	5.81	3.36
	5-Year High	8.2	8.14	6.7	3.44
	5-Year Low	3.06	5.91	4.99	2.53
	5-Year Median	6.66	6.88	6.05	3.01
P/B TTM	Current	1.07	2.11	2.36	4.06
	5-Year High	3.63	3.01	2.9	4.56
	5-Year Low	0.88	1.8	1.71	2.83
	5-Year Median	3.01	2.51	2.53	3.65

As of 05/21/2020

Industry Analysis Zacks Industry Rank: Top 31% (80 out of 254)



Top Peers

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

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	-	-	3	3	3
VGM Score	D	-	-	C	F	B
Market Cap	6.83 B	1.80 B	20.19 B	3.91 B	5.72 B	10.65 B
# of Analysts	4	4	14	2	6	2
Dividend Yield	7.38%	4.69%	2.11%	3.07%	10.36%	6.73%
Value Score	C	-	-	F	F	D
Cash/Price	0.25	0.08	0.07	0.09	0.01	0.02
EV/EBITDA	3.38	13.42	12.15	16.50	25.26	14.83
PEG Ratio	2.38	3.58	2.71	12.99	NA	1.63
Price/Book (P/B)	1.07	1.13	2.74	1.13	0.86	1.57
Price/Cash Flow (P/CF)	11.46	9.63	10.98	14.72	29.09	12.53
P/E (F1)	12.02	13.63	20.17	18.84	8.78	14.18
Price/Sales (P/S)	3.72	4.27	2.07	6.02	4.69	8.67
Earnings Yield	8.22%	7.05%	4.73%	5.29%	11.49%	7.05%
Debt/Equity	1.24	0.92	0.76	0.51	0.93	0.89
Cash Flow (\$/share)	3.12	2.03	6.96	1.99	0.18	4.93
Growth Score	F	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	-10.40%	2.02%	10.87%	NA	-5.62%	1.88%
Proj. EPS Growth (F1/F0)	-15.62%	-2.83%	-10.31%	-3.42%	-12.82%	-12.80%
Curr. Cash Flow Growth	-12.13%	3.36%	5.46%	3.15%	-65.84%	11.73%
Hist. Cash Flow Growth (3-5 yrs)	-7.64%	12.74%	8.55%	NA	45.41%	13.35%
Current Ratio	6.17	1.80	1.29	4.36	2.17	0.40
Debt/Capital	54.07%	48.50%	44.54%	33.92%	48.12%	47.17%
Net Margin	161.97%	12.85%	10.54%	12.85%	-23.19%	24.64%
Return on Equity	2.96%	3.98%	16.27%	2.44%	-4.05%	4.38%
Sales/Assets	0.10	0.13	0.54	0.11	0.09	0.09
Proj. Sales Growth (F1/F0)	-14.57%	0.00%	-2.49%	-22.04%	-4.95%	-5.99%
Momentum Score	B	-	-	C	D	C
Daily Price Chg	-2.43%	0.08%	-0.76%	0.69%	3.71%	0.37%
1 Week Price Chg	-10.38%	-10.78%	-4.56%	-16.61%	-17.70%	-12.72%
4 Week Price Chg	-4.62%	2.53%	5.52%	-8.35%	16.45%	6.53%
12 Week Price Chg	-34.32%	-23.93%	-8.54%	-22.26%	-40.40%	-23.40%
52 Week Price Chg	-46.79%	-25.45%	-6.30%	-27.39%	-38.83%	-25.43%
20 Day Average Volume	3,273,814	786,927	2,645,192	651,646	14,984,544	861,170
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-6.61%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.79%	-1.44%	-3.80%	-8.80%	-3.71%	-7.42%
(F1) EPS Est 12 week change	-14.25%	-5.47%	-16.57%	-13.37%	-7.63%	-13.46%
(Q1) EPS Est Mthly Chg	-7.24%	-2.16%	-7.64%	-5.95%	-6.41%	-11.33%

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	F
Momentum Score	B
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.

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