

Vornado Realty Trust (VNO)

\$37.04 (As of 03/26/20)

Price Target (6-12 Months): **\$39.00**

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

Vornado's focus on having assets in a few select high-rent, high barrier-to-entry geographic markets and 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. Strong balance sheet supports its growth endeavors. Vornado's fourth-quarter 2019 funds from operations (FFO) plus assumed conversions, as adjusted surpassed the Zacks Consensus Estimate. Total same-store net operating income in the New York portfolio as well as at theMART and 555 California buoyed the company's performance in the fourth-quarter. However, shares of Vornado have underperformed the industry over the past year. The earnings dilutive impact from asset sales cannot be bypassed in the near term. Store closures and retail tenant bankruptcy are other concerns.

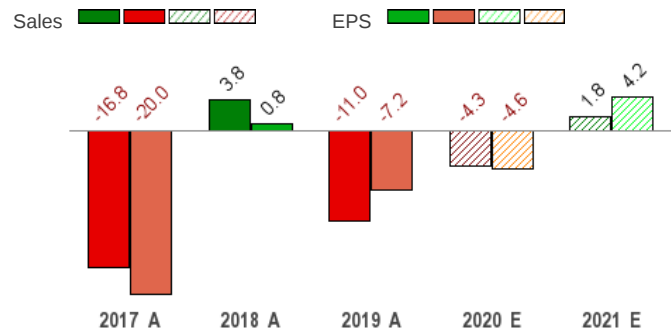
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.45 - \$27.64
20 Day Average Volume (sh)	2,910,017
Market Cap	\$7.1 B
YTD Price Change	-44.3%
Beta	1.17
Dividend / Div Yld	\$2.64 / 7.1%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 38% (96 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.2%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-1.1%
Expected Report Date	05/04/2020
Earnings ESP	-5.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	467 E	475 E	479 E	485 E	1,877 E
2020	454 E	459 E	462 E	468 E	1,843 E
2019	535 A	463 A	466 A	461 A	1,925 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.83 E	\$0.86 E	\$0.89 E	\$0.90 E	\$3.47 E
2020	\$0.78 E	\$0.83 E	\$0.86 E	\$0.87 E	\$3.33 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	10.6
P/E F1	11.1
PEG F1	2.2
P/S TTM	3.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

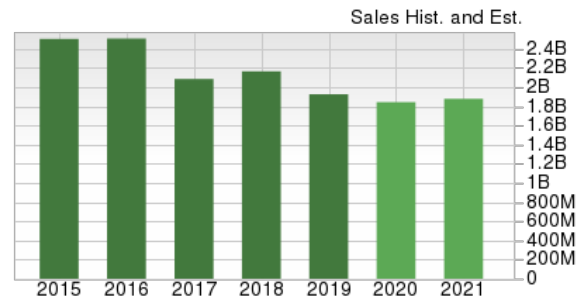
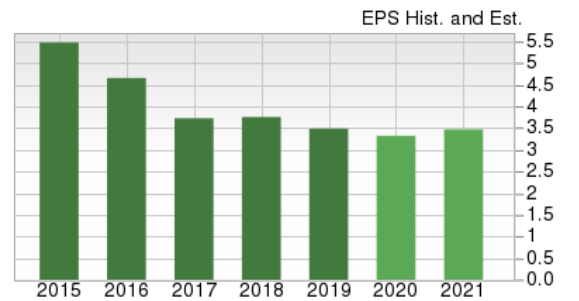
Overview

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.



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 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.
- ▲ Vornado boasts an investment-grade balance sheet with well-laddered debt maturities. As of Dec 31, 2019, Vornado had \$1.5 billion of cash and cash equivalents, up from the \$570.9 million reported as of the prior-year end. 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.

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.
- ▼ 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 roughly 87% of its NOI in 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. There is uncertainty regarding the overall impact of the coronavirus outbreak on the economy, which is a concern.
- ▼ 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.
- ▼ 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 plunged 45.9% compared with the industry's decline of 21.9%. 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 marginally south 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's Q4 FFO Beats Estimates, Revenues Down Y/Y

Vornado Realty Trust reported fourth-quarter 2019 FFO plus assumed conversions, as adjusted of 89 cents per share, surpassing the Zacks Consensus Estimate of 83 cents. The reported figure remains flat, year over year.

Total same-store NOI in the New York portfolio as well as at theMART and 555 California buoyed the company's performance in the fourth quarter.

However, total revenues came in at around \$461 million in the reported quarter, missing the Zacks Consensus Estimate of \$463 million. Moreover, the revenue figure compares unfavorably with the year-ago tally of \$543.4 million.

For full-year 2019, the company reported FFO plus assumed conversions, as adjusted of \$3.49 per share, down from \$3.73 per share reported in 2018. Revenues for the full year also declined 11% year on year to \$1.9 billion.

Behind the Headline Numbers

In the New York portfolio, 173,000 square feet of office space (117,000 square feet of space at share) and 94,000 square feet of retail space (73,000 square feet of space at share) were leased during the December-end quarter. Also, 52,000 square feet of area was leased at theMART and 30,000 square feet was leased at 555 California Street (21,000 square feet at share).

At the end of the fourth quarter, occupancy in the New York portfolio came in at 96.7%, shrinking 10 basis points (bps) sequentially, and 30 bps year over year. Occupancy in theMART was 94.6%, down 40 bps sequentially and 10 bps year over year. Furthermore, occupancy in 555 California Street was 99.8%, down 20 bps sequentially but up 40 bps year over year.

During the reported period, total same-store NOI increased 7.1% year over year. In fact, same-store NOI in the company's New York portfolio grew 2.6%. The same at theMART and 555 California surged 114.3% and 3.3%, respectively.

During the October-December period, Vornado closed the sale of 17 condominium units at 220 CPS for net proceeds amounting to \$565.9 million. This resulted in a financial statement net gain of \$203.9 million.

As of Dec 31, 2019, Vornado had \$1.5 billion of cash and cash equivalents, up from the \$570.9 million reported as of the prior-year end.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-0.43%
EPS Surprise	7.23%
Quarterly EPS	0.89
Annual EPS (TTM)	3.48

Recent News

Dividend Update

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

Notably, on 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.

Valuation

Vornado's shares have been down 45.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 21.9% and 24% over the past year.

The S&P 500 Index is down 12.8% over the past year.

The stock is currently trading at 10.98X forward 12-month FFO, which compares to 13.41X for the Zacks sub-industry, 10.66X for the Zacks sector and 14.92X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.61X and as low as 8.80X, with a 5-year median of 18.25X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$39 price target reflects 11.56X FFO.

The table below shows summary valuation data for VNO.

Valuation Multiples - VNO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.98	13.41	10.66	14.92
	5-Year High	22.61	18.7	16.21	19.34
	5-Year Low	8.8	13.41	10.66	14.92
	5-Year Median	18.25	16.08	13.97	17.42
P/S F12M	Current	3.82	5.96	5.99	2.68
	5-Year High	8.34	8.14	6.64	3.43
	5-Year Low	3.06	5.91	5.39	2.54
	5-Year Median	6.76	6.87	6.04	3
P/B TTM	Current	1.1	2.06	1.92	3.33
	5-Year High	3.68	3.01	2.89	4.56
	5-Year Low	0.88	1.8	1.68	2.85
	5-Year Median	3.02	2.52	2.52	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



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
VGM Score	D	-	-	D	F	D
Market Cap	7.07 B	1.88 B	18.50 B	4.09 B	5.43 B	10.46 B
# of Analysts	7	4	13	2	6	2
Dividend Yield	7.13%	5.80%	2.35%	2.97%	10.91%	6.84%
Value Score	C	-	-	F	F	F
Cash/Price	0.28	0.04	0.07	0.04	0.01	0.02
EV/EBITDA	3.32	12.85	11.16	17.05	23.37	14.50
PEG Ratio	2.19	3.07	1.74	6.50	NA	1.91
Price/Book (P/B)	1.10	1.13	2.44	1.20	0.79	1.50
Price/Cash Flow (P/CF)	11.87	9.51	9.87	15.25	27.61	12.30
P/E (F1)	11.08	11.00	15.29	17.10	7.90	12.10
Price/Sales (P/S)	3.68	4.14	1.93	6.32	4.39	8.48
Earnings Yield	8.99%	9.09%	6.47%	5.83%	12.70%	8.26%
Debt/Equity	1.15	0.87	0.70	0.48	0.82	0.84
Cash Flow (\$/share)	3.12	2.02	7.01	1.99	0.18	4.93
Growth Score	F	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	-9.79%	2.75%	10.85%	NA	-5.62%	3.00%
Proj. EPS Growth (F1/F0)	-4.71%	2.19%	2.89%	10.25%	-8.02%	0.30%
Curr. Cash Flow Growth	-12.13%	4.13%	5.93%	3.15%	-65.84%	11.73%
Hist. Cash Flow Growth (3-5 yrs)	-7.64%	12.64%	8.55%	NA	45.41%	13.35%
Current Ratio	5.56	1.26	1.23	2.32	0.86	0.28
Debt/Capital	53.15%	46.57%	42.57%	32.40%	45.04%	45.72%
Net Margin	163.55%	13.67%	11.64%	10.12%	-24.28%	24.76%
Return on Equity	4.54%	4.42%	16.74%	1.98%	-4.22%	4.37%
Sales/Assets	0.11	0.13	0.54	0.11	0.09	0.09
Proj. Sales Growth (F1/F0)	-4.25%	3.41%	2.37%	-19.65%	-0.96%	6.25%
Momentum Score	B	-	-	C	C	D
Daily Price Chg	7.21%	6.00%	6.21%	7.55%	-0.59%	5.75%
1 Week Price Chg	-32.94%	-21.66%	-16.96%	-22.04%	-34.38%	-33.19%
4 Week Price Chg	-31.95%	-25.00%	-15.70%	-19.48%	-43.43%	-24.82%
12 Week Price Chg	-43.45%	-27.79%	-23.67%	-22.97%	-44.12%	-23.19%
52 Week Price Chg	-45.14%	-28.29%	-13.99%	-26.73%	-40.21%	-22.51%
20 Day Average Volume	2,910,017	1,233,460	4,286,768	1,097,017	19,191,862	1,351,101
(F1) EPS Est 1 week change	-0.34%	0.00%	-0.15%	-0.84%	-0.52%	0.00%
(F1) EPS Est 4 week change	-1.08%	-0.81%	-2.28%	-1.11%	-2.54%	0.00%
(F1) EPS Est 12 week change	-3.26%	-1.30%	-3.22%	-1.93%	-3.28%	-0.20%
(Q1) EPS Est Mthly Chg	-0.60%	0.00%	-1.60%	-1.14%	0.00%	0.00%

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.