

## Three Opportunities In The Retail Wasteland



It's no secret that malls are under pressure from e-commerce and Amazon. Even strip malls anchored by supermarkets and stores like Target and WalMart are struggling as shoppers buy more necessities and staples online. But some shopping center REITs' stocks have declined so much that they're worth a look from investors. Three of the largest — Brixmor, KIMCO, and Weingarten are yielding 5.70% or more.

### Covering Dividends & Interest Payments

First, all three companies can cover their dividends with funds from operations (FFO). FFO is an important REIT cash flow metric that's useful for understanding dividend coverage. It adjusts net income for property sales and depreciation, the latter of which can be an unrealistic charge in real

estate. It's not perfect because some capital is required to maintain property every year, but it's a decent start to see if companies can maintain their current dividends. Our three companies are producing FFO that's at least 38% higher than their current dividend payouts.

Company	Ticker	Market Cap. (\$ in billions)	FFO/share ttm	Price/FFO	Dividend/share	FFO/Dividend	Dividend Yield
Kimco Realty Corp.	KIM	6.69	1.55	9.75	1.12	1.38	7.39%
Weingarten Realty Investors	WRI	3.63	2.43	11.38	1.58	1.54	5.70%
Brixmor Property Group, Inc.	BRX	4.83	2.06	7.75	1.10	1.87	7.00%

Second, none of our companies is carrying a dangerous amount of debt. Their fixed charge (bonds and preferreds) coverage ratios are all over 3x. The typical cash flow metric used to calculate coverage is EBITDA or earnings before interest, taxes, depreciation and amortization. Again, that's imperfect because it doesn't include maintenance capital expenditures, but at 3x or more it's fair to say our companies don't have unreasonable amounts of debt.

## Same Property NOI Growth & Property Quality

Another important metric in real estate is if companies are experiencing same-property rent and net operating income (NOI) growth. Our companies are. Brixmor, however generated the lowest same property NOI growth for the second quarter of 2018 (the most recent available), and that may be why its stock is trading at the lowest FFO multiple and delivering the highest current yield.

Company	Same Property year-over-year NOI Growth Q2 2018
KIMCO	3.90%
Weingarten	2.70%
Brixmor	1.40%

One possible reason for Brixmor lagging in this category is that its sprawling property portfolio includes malls in less upscale areas. When looking at the amount of annualized base rent (ABR) each firm had from each city or metropolitan area, and Brixmor had only 24% of its rent come from Los Angeles, Houston, metropolitan New York City, Chicago, Miami, Washington, D.C., and San Francisco. By contrast, Weingarten had 34% of its rent come from those locations and KIMCO had nearly 39% of its rent come from those locations.

% of Annual Base Rent	Weingarten	KIMCO	Brixmor
LA	4.5	5.1	3.5
Houston	15	4.3	5.2

Additionally, Brixmor may have the least desirable top tenants. Weingarten and KIMCO count Home Depot and WholeFoods as top-10 tenants, but Brixmor doesn't. Brixmor has more discount stores in its top-10, including Burlington and Dollar Tree.

Top Tenants					
<u>Weingarten</u>		<u>KIMCO</u>		<u>Brixmor</u>	
	% Annual Base Rent		% Annual Base Rent		% Annual Base Rent
Kroger	2.4	TJX Companies	3.6	TJX Companies	3.2
TJX companies	2.4	Home Depot	2.5	Kroger	3
Ross Stores	2.1	Ahold Delhaize	2.3	Dollar Tree	1.9
WholeFoods	1.8	Albertson's	1.8	Ahold Delhaize	1.5
H-E-B	1.7	Petsmart	1.8	Publix SuperMarkets	1.4
Petsmart	1.6	Ross Stores	1.7	WalMart	1.4
Albertson's	1.3	Bed, Bath & Beyond	1.7	Burlington Stores	1.3
Bed Bath & Beyond	1.3	WholeFoods	1.6	Albertson's	1.3
24 Hour Fitness	1.2	Kohl's	1.6	Ross Stores	1.1
Home Depot	1.1	WalMart	1.6	Bed, Bath & Beyond	1

Overall, all three companies are healthy, but KIMCO and Weingarten have a more attractive tenant lineup that make paying up for them worth it. Incidentally, this exercise also shows why investors need to be wary of advisors who say to them "I can get 8%; you x% yield." Higher yield usually comes with higher risks or, in this case, inferior real estate and tenants. You can have any yield you want, but you have to be cognizant of the risk associated with each yield.