



# Federal Realty Investment Trust (FRT)

Updated May 11<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$102	<b>5 Year CAGR Estimate:</b>	4.0%	<b>Market Cap:</b>	\$8.6B
<b>Fair Value Price:</b>	\$81.5	<b>5 Year Growth Estimate:</b>	4.3%	<b>Ex-Dividend Date:</b>	6/21/24
<b>% Fair Value:</b>	125%	<b>5 Year Valuation Multiple Estimate:</b>	-4.4%	<b>Dividend Payment Date:</b>	7/15/24
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$101	<b>Years Of Dividend Growth:</b>	56
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## Overview & Current Events

Federal Realty is one of the larger real estate investment trusts (REITs) in the United States. The trust was founded in 1962 and concentrates in high-income, densely populated coastal markets in the US, allowing it to charge more per square foot than its competition. Federal Realty trades with a market capitalization of \$8.6 billion today.

On May 2, 2024, Federal Realty Investment Trust (FRT) reported a robust first quarter with significant achievements in leasing and revenue growth. The company recorded earnings of \$1.64 per share and noted a 3.8% increase in same-center revenue. It achieved a record 567,000 square feet of retail space leasing and also leased 190,000 square feet of office space in mixed-use properties. The quarter saw the revision of the FFO guidance for 2024 to \$6.77 per share, reflecting strong operational performance and strategic acquisitions aimed at redevelopment and growth potential. Federal Realty Investment Trust remains in a solid liquidity position, with over \$1.33 billion available, supporting its ongoing projects and redevelopment plans.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$4.94	\$5.32	\$5.65	\$5.91	\$6.23	\$6.33	\$4.52	\$5.57	\$6.32	\$6.55	<b>\$6.79</b>	<b>\$8.40</b>
<b>DPS</b>	\$3.30	\$3.62	\$3.84	\$3.96	\$4.04	\$4.20	\$4.22	\$4.26	\$4.32	\$4.34	<b>\$4.36</b>	<b>\$4.78</b>
<b>Shares<sup>1</sup></b>	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.4	83.0	<b>82.9</b>	<b>85.0</b>

We use funds-from-operations (FFO) instead of earnings-per-share for REITs as the latter is messy and uninformative for this industry. Prior to 2020, Federal Realty's funds-from-operations had not dipped year-over-year at any point in the past decade, a tremendously impressive feat given that the trust operates in the highly cyclical real estate sector.

While growth numbers have not always been impressive, the simple fact that it has such a consistent track record of safety and stability when it comes to funds-from-operations and dividends per share makes it one of the most desirable REITs in the market. Federal Realty's growth moving forward will be comprised of a continuation of higher rent rates on new leases and its impressive development pipeline fueling asset base expansion. Margins are expected to continue to rise slightly as it redevelops pieces of its portfolio and same-center revenue continues to move higher. Moving forward, we expect FFO/share to grow at a mid-single-digit pace. We also expect Federal Realty to continue increasing its streak of 56 consecutive years of dividend increases.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/FFO</b>	24.3	27.8	27.2	27	22.9	19.6	20.7	16.2	24.6	13.9	<b>15.0</b>	<b>12.0</b>
<b>Avg. Yld.</b>	2.7%	2.4%	2.5%	2.5%	2.8%	3.4%	4.5%	4.7%	2.8%	4.8%	<b>4.3%</b>	<b>4.7%</b>

Federal Realty's valuation now stands at 15 times our 2023 FFO estimate, which is above our fair value estimate of 12 times FFO. That said, we expect the payout ratio to continue to trend downward moving forward as the company will be

<sup>1</sup> Share count in millions

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focusing on strengthening its portfolio and balance sheet moving forward, so the dividend yield will likely only increase to 4.7% over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	67%	68%	68%	67%	65%	66%	93%	76%	68%	66%	64%	57%

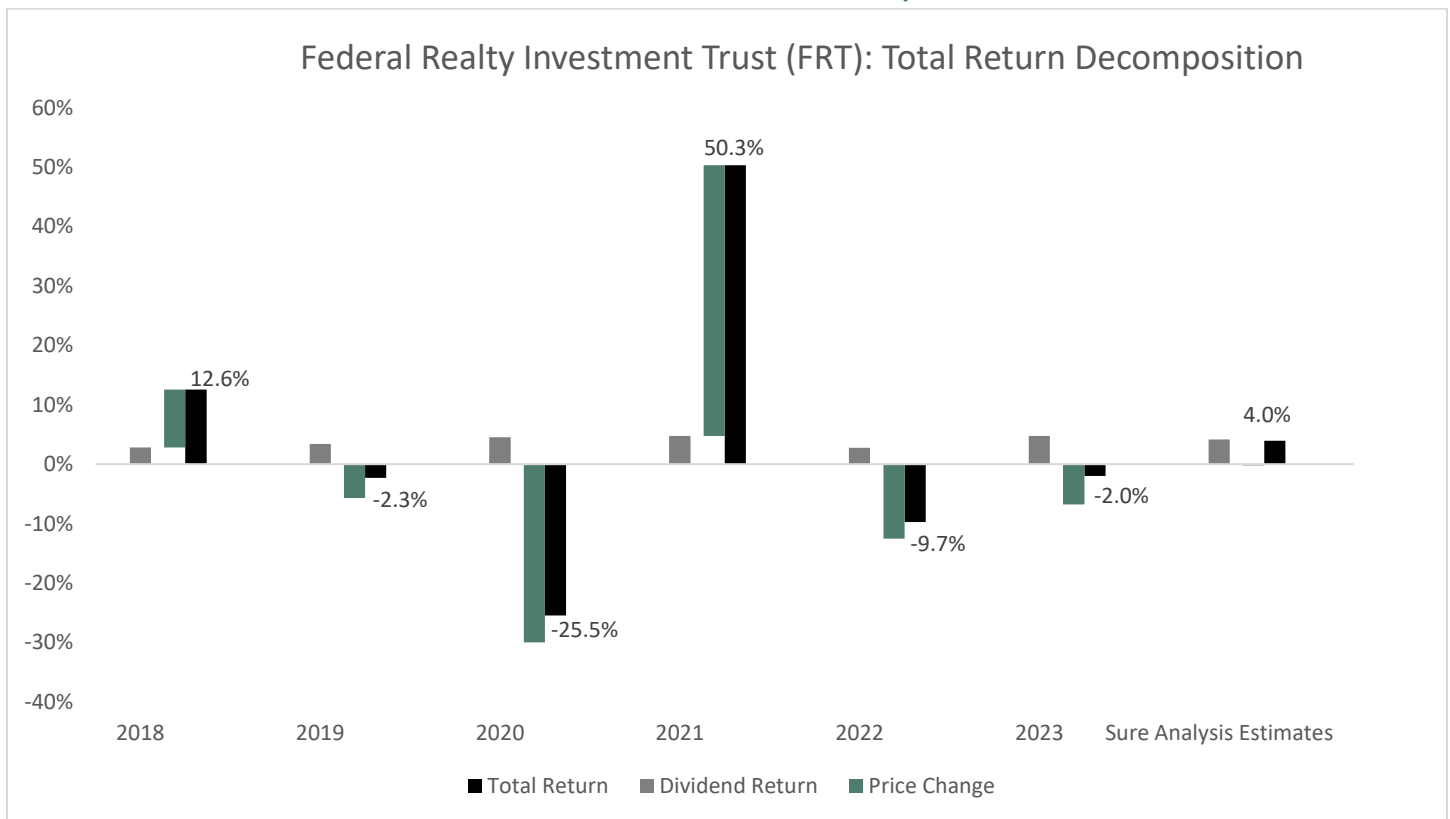
This year's payout ratio is higher than it has been over its history. However, we believe that this is due to short term headwinds from COVID-19 and is not indicative of a long-term impairment of the business. Federal Realty's payout ratio has been pretty steady in the past decade, and we do not see that changing. The preferred mix of dividend payments as a percentage of FFO is two-thirds, and that is where we see the dividend in the coming years. Federal Realty's dividend payment is still considered moderately safe and should continue to be raised for many years to come.

Federal Realty's competitive advantages include its superior development pipeline, its focus on high-income, high-density areas and its decades of experience in running a world-class REIT. These qualities allow it to perform admirably, and even grow through recessions, when some of its lesser peers struggle to keep the lights on.

## Final Thoughts & Recommendation

We are forecasting total annualized returns of 4% going forward. Federal Realty is a high-quality name that offers not only capital appreciation potential due to per share FFO growth, but a nice dividend yield as well. We rate the REIT as a hold given that its growth pipeline and attractive dividend are complemented by a strong balance sheet.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	686	744	802	857	915	936	835	951	1,074	1,132
<b>Gross Profit</b>	474	511	548	585	628	637	545	635	718	769
<b>Gross Margin</b>	69.1%	68.6%	68.4%	68.2%	68.6%	68.1%	65.3%	66.7%	66.8%	67.9%
<b>SG&amp;A Exp.</b>	32	36	33	36	34	43	42	50	53	51
<b>D&amp;A Exp.</b>	171	175	194	216	244	240	255	280	302	322
<b>Operating Profit</b>	271	300	321	332	350	355	249	305	363	397
<b>Operating Margin</b>	39.5%	40.3%	40.0%	38.8%	38.2%	37.9%	29.8%	32.0%	33.7%	35.0%
<b>Net Profit</b>	165	210	250	290	242	354	132	261	385	237
<b>Net Margin</b>	24.0%	28.3%	31.2%	33.8%	26.4%	37.8%	15.8%	27.5%	35.9%	20.9%
<b>Free Cash Flow</b>	(15)	87	(10)	(60)	148	52	(132)	31	100	245

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,547	4,897	5,423	6,276	6,290	6,795	7,608	7,622	8,234	8,437
<b>Cash &amp; Equivalents</b>	48	21	23	15	64	127	798	162	86	251
<b>Accounts Receivable</b>	93	110	117	210	142	153	160	169	198	202
<b>Total Liabilities</b>	2,735	2,977	3,204	3,743	3,686	4,019	4,921	4,745	5,022	5,211
<b>Accounts Payable</b>	146	147	202	196	178	256	229	235	190	175
<b>Long-Term Debt</b>	2,338	2,556	2,727	3,213	3,158	3,357	4,291	4,048	4,329	4,599
<b>Shareholder's Equity</b>	1,594	1,654	1,967	2,107	2,186	2,375	2,304	2,421	2,794	2,804
<b>LTD/E Ratio</b>	1.46	1.54	1.38	1.42	1.35	1.32	1.74	1.57	1.47	1.55

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	3.8%	4.5%	4.8%	5.0%	3.9%	5.4%	1.8%	3.4%	4.9%	2.8%
<b>Return on Equity</b>	9.7%	11.3%	12.1%	12.2%	9.4%	13.2%	4.8%	9.4%	12.7%	7.4%
<b>ROIC</b>	4.1%	4.9%	5.3%	5.4%	4.2%	6.0%	2.0%	3.8%	5.3%	3.1%
<b>Shares Out.</b>	68.7	69.7	72.1	73.2	74.4	75.7	76.7	78.6	81.4	83.0
<b>Revenue/Share</b>	10.17	10.79	11.28	11.87	12.49	12.52	11.06	12.29	13.35	13.92
<b>FCF/Share</b>	(0.22)	1.25	(0.14)	(0.83)	2.02	0.70	(1.75)	0.40	1.24	3.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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