



DSR STOCK CARD

01/13/2020

KIMCO REALTY (KIM)

Business Model

Kimco Realty Corp is a real estate investment trust that owns and operates neighborhood and community open-air shopping centers in North America. KIM is one of North America's largest publicly traded owners and operators of open-air shopping centers with interests in over 400 shopping centers throughout major markets in the U.S. This represents roughly 61 million square feet of leasable space concentrated in the top major metropolitan markets.

The Company in a Nutshell

- The last time the economy went south, the dividend was axed (and still hasn't fully recovered).
- Between 2010 and 2018, the company cleaned its portfolio from 816 properties to 437.
- Did I ever tell you brick & mortar retail is dying? Kimco may not be next, but its growth is limited.

Investment Thesis

While I'm definitely not a big fan of brick & mortar, I can appreciate Kimco's strategy. The REIT learned from its painful mistake of 2009 (that lead to a dividend cut) and reshaped its portfolio toward retailers that found ways to be relevant in the new economy such as grocery stores, restaurants, services and home improvements. As the REIT derives about 80% of its revenue from major metropolitan market, it ensures a minimum client flow even during recessions. Nonetheless, keep in mind that the company had to cut its dividend during the latest recession of 2009 leaving shareholders with a sour taste. There is a reason why KIM pays a high yield and it's not because the REIT is being generous. Poor growth perspectives are more likely the cause.

VALUATION

Dividend Growth Rate Years 1-10: 2%

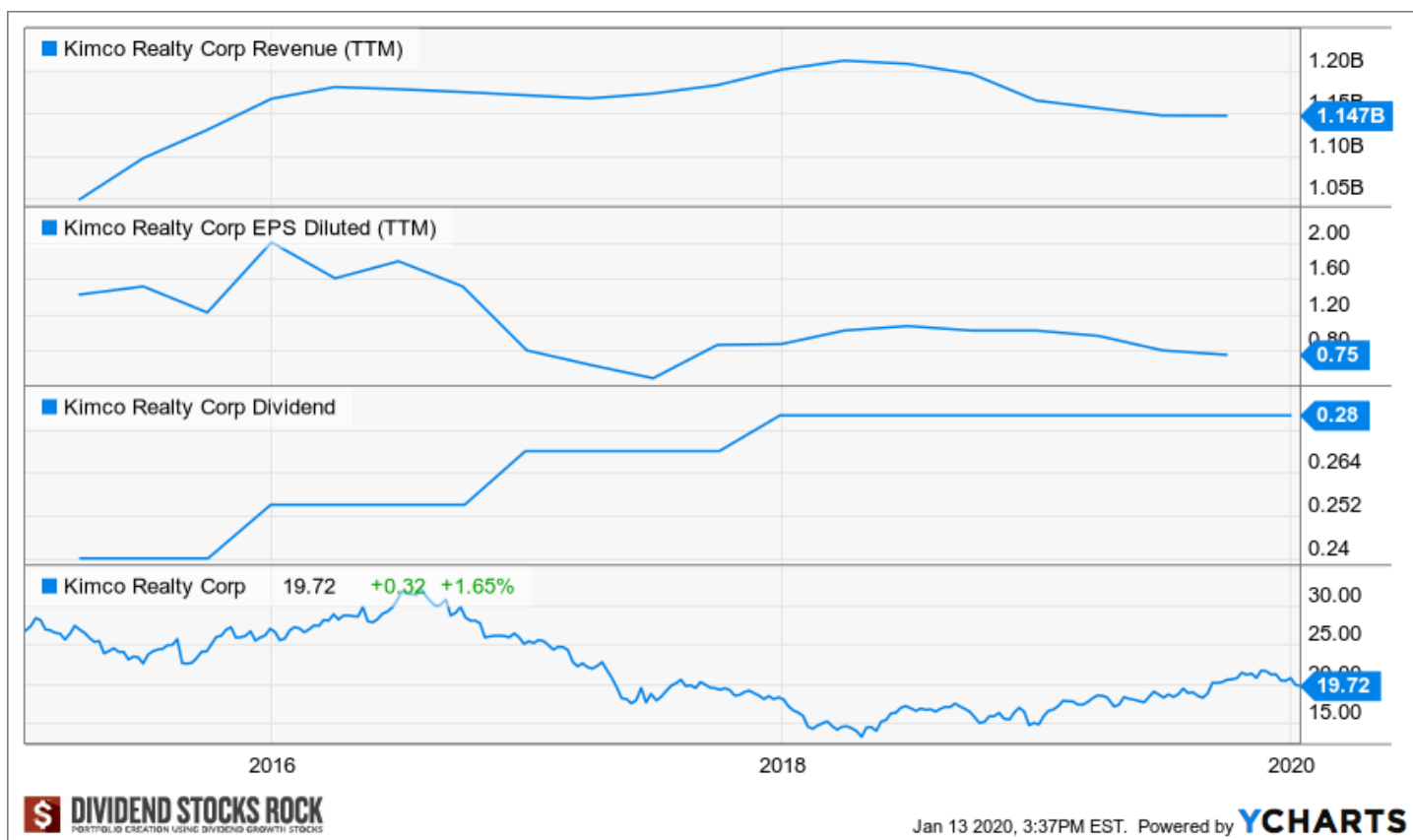
Terminal Dividend Growth Rate: 2%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$19.58	\$17.14	\$15.23
10% Premium	\$17.95	\$15.71	\$13.96
Intrinsic Value	\$16.32	\$14.28	\$12.69
10% Discount	\$14.69	\$12.85	\$11.42
20% Discount	\$13.06	\$11.42	\$10.15



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Potential Risks

I always say that everybody looks good on prom night. KIM has done a great job selling poor quality assets and reinvesting the proceeds into higher yielding properties. However, we won't know how strong its new business model is as long as we don't hit a recession. If a major retailer closes many stores, KIM will definitely have a hard time finding new tenants to fill those larger spaces. Rent increases may be modest in the upcoming years as KIM would rather keep its tenants than killing them slowly with high recurring costs.

Dividend Growth Perspective

The company posted close to a mid-single digit dividend growth over the past 5 years. We have rated KIM dividend safety score at 2. First, KIM cut its dividend from \$0.44/share to \$0.06 in 2009. The dividend hasn't fully recovered yet. Second, KIM is slowing down its dividend growth policy with an increase of 3.7% in 2018. Third, management "forgot" to increase its dividend in 2019.