

## Simon Property

## 4Q23: SPG provides conservative '24 guidance; maintain Buy rating

Maintain Rating: BUY | PO: 167.00 USD | Price: 143.39 USD

## Strong core results; initiates '24 guide -1.8% below Street

Big picture, 4Q results were solid. While SPG introduced 2024 guidance with a midpoint -1.8% below the Street, we view this as conservative and identify several positive catalysts which support our Buy rating: 1) Strength of leasing to continue in '24 with limited watch list. 2) Monetization of other investments begins. 3) No one-time gains in OPI guidance which reflects a more stabilized number after a tough 2023 for OPI. We believe this will allow investors to focus on SPG's core dominant retail centers. 4) Mixed use / redevelopments are increasing and will boost earnings starting in '25. 5) Market ascribing higher value for SPG's platform as marketing / tech initiatives show benefits.

## Positive on core outlook despite the disappointing guide

We are positive on SPG's strong domestic property operations given +7.3% y/y NOI growth in 4Q23 and +4.8% in FY23 vs. expectations all year for 'above 3%' growth. 4Q NOI benefitted from lower property opex largely due to lower snow removal costs. Positively, occupancy across all center types improved q/q (+60bps for Malls/Outlets). We maintain our Buy rating. We are updating our estimates for earnings results and maintaining our PO of \$167. See inside for more detail.

## Redev still a key focus but "more of a 2025-2026 story"

SPG completed 13 redevelopment projects in 2023 totaling \$314M. This was lower than prior expectations given the downtime associated with re-tenanting boxes. SPG expects to start 5-6 mixed-use projects totaling ~\$800mn in 2024. However, most completed redev projects will not see much benefit to earnings until 2025-2026. Going forward SPG aims to spend \$600-800mn/year on new development at an 8% plus yield.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
FFO / Share (Reported)	11.95	12.51	12.26	12.74	13.12
GAAP EPS	5.70	6.09	5.61	5.99	6.28
FFO / Share Change (YoY)	0.1%	4.7%	-2.0%	3.9%	3.0%
DPS	6.90	7.45	7.90	8.10	8.35
FFO / Share (Normalized)	11.87	11.51	12.26	12.74	13.12
AFFO / Share	11.27	11.11	11.45	12.07	12.46

Valuation (Dec)	2022A	2023A	2024E	2025E	2026E
P/FFO (Reported)	12.0x	11.5x	11.7x	11.3x	10.9x
GAAP P/E	25.2x	23.5x	25.6x	23.9x	22.8x
Dividend Yield	4.8%	5.2%	5.5%	5.6%	5.8%
EV / EBITDA	14.2x	14.0x	13.3x	12.8x	12.4x
P/FFO (Normalized)	12.1x	12.5x	11.7x	11.3x	10.9x
P/AFFO	12.7x	12.9x	12.5x	11.9x	11.5x
NAV / Share	134.12	163.48	152.37	NA	NA

07 February 2024

## Equity

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## Stock Data

Price	143.39 USD
Price Objective	167.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-1-7
52-Week Range	100.17 USD - 146.91 USD
Mkt Val (mn) / Shares Out (mn)	53,752 USD / 374.9
Free Float	95.3%
Average Daily Value (mn)	211.06 USD
BofA Ticker / Exchange	SPG / NYS
Bloomberg / Reuters	SPG US / SPG.N
ROE (2024E)	59.9%
Net Dbt to Eqty (Dec-2023A)	0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

## Key terms:

**PsF:** per square foot

**Comp FFO:** Comparable FFO

**POI:** Property operating income

**Opex:** operating expenses

**OPI:** other platform investments

**ABG:** Authentic Brands Group

**JV:** Joint venture

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 07 February 2024 05:30AM EST

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## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Rental Revenue	4,905	5,164	5,372	5,505	5,564
Property Net Operating Income (NOI)	4,031	9,481	4,471	4,707	4,895
EBITDA (Adjusted)	5,453	5,547	5,857	6,085	6,283
<b>Net Income (Adjusted)</b>	<b>2,137</b>	<b>7,445</b>	<b>2,102</b>	<b>2,244</b>	<b>2,353</b>
<b>Funds From Operations (FFO)</b>	<b>4,454</b>	<b>4,313</b>	<b>4,596</b>	<b>4,777</b>	<b>4,919</b>
% Change	2.0%	-3.2%	6.6%	3.9%	3.0%
<b>Normalized Funds from Operations (FFO)</b>	<b>4,454</b>	<b>4,313</b>	<b>4,596</b>	<b>4,777</b>	<b>4,919</b>
% Change	2.0%	-3.2%	6.6%	3.9%	3.0%
Fully Diluted Shares (Year Average)	375	375	375	375	375

## Cash Flow Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Funds from Operation (FFO)	4,454	4,313	4,596	4,777	4,919
Capital Expenditure	(650)	(753)	(574)	(523)	(519)
Straight Line Rent / FAS 141	NA	NA	NA	NA	NA
Adjusted FFO	3,804	3,560	4,021	4,254	4,400
Dividends	-2,588	-2,791	-2,961	-3,036	-3,130
Free Cash Flow	1,215	769	1,060	1,218	1,270
Issue (Purchase) Equity	(189)	(123)	0	0	0
Share / Issue Repurchase	(189)	(123)	0	0	0
Cost of Dividends Paid	(2,588)	(2,791)	(2,961)	(3,036)	(3,130)
Change in Debt	(272)	1883	(2500)	(1652)	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Marketable Securities	622	1,169	0	0	1,059
Properties at Cost	38,327	39,285	39,860	40,383	40,902
<b>Total Assets</b>	<b>33,011</b>	<b>34,283</b>	<b>33,437</b>	<b>33,700</b>	<b>35,010</b>
Total Debt	24,835	25,728	23,228	21,577	21,577
<b>Total Liabilities</b>	<b>29,187</b>	<b>30,596</b>	<b>28,694</b>	<b>27,762</b>	<b>27,774</b>
Preferred Stock	41	41	41	42	42
Total Equity	3,824	3,688	4,743	5,938	7,236
Total Equity & Liabilities	33,011	34,283	33,437	33,700	35,010

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Acquisitions	NA	NA	NA	NA	NA
Cap Rate	NA	NA	NA	NA	NA
Developments	NA	NA	NA	NA	NA
Cap Rate	NA	NA	NA	NA	NA
Dispositions	NA	NA	NA	NA	NA
Cap Rate	NA	NA	NA	NA	NA
Same Store Revenue Growth	NA	NA	NA	NA	NA

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Invested Capital (ROIC)	10.5%	24.1%	11.2%	11.7%	12.0%
Operating Margin	76.2%	87.6%	76.7%	75.8%	75.7%
Interest Cover	7.2x	6.5x	6.5x	6.4x	6.3x

## Company Sector

REITs

## Company Description

Simon Property Group (SPG) is a REIT engaged in the ownership, development and management of retail real estate, primarily regional malls, premium outlets and The Mills. Through its subsidiary partnership, it owns or has an interest in about 240 properties in the US, Europe and Asia.

## Investment Rationale

SPG's diversified portfolio of regional malls, outlet centers, lifestyle centers and Mills centers consistently generates above average growth and operating cash flow. In addition, SPG's management and balance sheet are among the best in the industry. SPG's redevelopment pipeline is well positioned for growth and its dominant characteristics helps it stand out against peers, presenting a basis for a Buy rating.

## Stock Data

Average Daily Volume 1,471,924

## Quarterly Earnings Estimates

	2023	2024
Q1	2.74A	2.86E
Q2	2.88A	3.00E
Q3	3.20A	3.11E
Q4	3.69A	3.29E

## Other key highlights from results:

- SPG's FFO from its real estate business grew +3.4% y/y to \$11.78 in FY2023. FY2024 guidance assumes about +6.3% growth at the midpoint based on \$11.85-12.10 of FFO/sh when excluding 10-15c of gains from OPI.
- SPG sold a portion of its interest in ABG in 4Q for \$300M gross proceeds and reported pre-tax gains of \$157mn, and post-tax gains of \$118mn.
- Sales psf for Malls and Outlets declined slightly to \$743 psf for the Trailing 12 Months ended 12/31 vs. \$744 as of 9/30.
- 2024 guidance does not assume any significant acquisition or disposition activity.
- 2024 guidance assumes higher net interest expense of 25-30c per share. Guidance also assumes \$30mn of lease termination income and 25bps of bad debt as a percentage of total revenues, both in line with historical levels.
- SPG announced their 1Q24 quarterly distribution of \$1.95 (+8.3% y/y).

## Summary of PO and estimate changes:

**SPG (B-1-7):** After updating our model for 4Q23 earnings, we are maintaining our PO of \$167. Our PO is based on our new forward NAV estimate of \$153 and assumes a 10% premium (unchanged) applied based on SPG's scale and our view of a strong management team. To arrive at our NAV estimate we apply a cap rate of 7.0% (unchanged) to our forward NOI estimate. We also updated our FFO/sh estimates to \$12.26 in FY24 (\$12.33 prior), \$12.74 in FY25 (\$12.87 prior), \$13.12 (\$13.08 prior) in FY26, and \$13.31 (\$13.01 prior) in FY27.



## Price objective basis & risk

### Simon Property (SPG)

Our \$167 price objective assumes the stock trades at a 10% premium to our forward NAV estimate based on our view of better balance sheet management and strong management. We apply a 7.0% cap rate to our forward NOI estimate. We use 7.0% for SPG based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of SPG. The risks to SPG achieving our price objective are a significant slowdown in retail sales, a rise in retailer bankruptcies and significantly higher long-term interest rates. Upside risk to our price objective is a faster- and stronger-than-expected macro-economic recovery.

## Analyst Certification

I, Jeffrey Spector, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agree Realty Corp	ADC	ADC US	Joshua Dennerlein
	Alexandria Real Estate Equities	ARE	ARE US	Joshua Dennerlein
	American Homes 4 Rent	AMH	AMH US	Jeffrey Spector
	Americold Realty Trust	COLD	COLD US	Joshua Dennerlein
	AvalonBay Communities Inc	AVB	AVB US	Joshua Dennerlein
	Boston Properties	BXP	BXP US	Jeffrey Spector
	Brixmor Property Group	BRX	BRX US	Jeffrey Spector
	COPT Defense Properties	CDP	CDP US	Camille Bonnel
	Cousins Properties Inc.	CUZ	CUZ US	Camille Bonnel
	EastGroup Properties	EGP	EGP US	Jeffrey Spector
	Empire State Realty Trust	ESRT	ESRT US	Camille Bonnel
	Equity Residential	EQR	EQR US	Jeffrey Spector
	Essential Properties	EPRT	EPRT US	Joshua Dennerlein
	Federal Realty	FRT	FRT US	Jeffrey Spector
	Invitation Homes Inc	INVH	INVH US	Joshua Dennerlein
	Kimco Realty	KIM	KIM US	Jeffrey Spector
	Kite Realty Group	KRG	KRG US	Jeffrey Spector
	Phillips Edison & Company	PECO	PECO US	Jeffrey Spector
	Prologis, Inc.	PLD	PLD US	Camille Bonnel
	Public Storage, Inc.	PSA	PSA US	Jeffrey Spector
	Regency	REG	REG US	Jeffrey Spector
	Rexford Industrial Realty	REXR	REXR US	Camille Bonnel
	Sabra Health Care	SBRA	SBRA US	Joshua Dennerlein
	Simon Property	SPG	SPG US	Jeffrey Spector
	Ventas, Inc.	VTR	VTR US	Jeffrey Spector
	Welltower	WELL	WELL US	Joshua Dennerlein
<b>NEUTRAL</b>				
	Acadia Realty Trust	AKR	AKR US	Jeffrey Spector
	CubeSmart	CUBE	CUBE US	Jeffrey Spector
	EPR Properties	EPR	EPR US	Joshua Dennerlein
	Equity LifeStyle Properties	ELS	ELS US	Jeffrey Spector
	Essex Property Trust, Inc.	ESS	ESS US	Joshua Dennerlein
	Extra Space Storage, Inc.	EXR	EXR US	Jeffrey Spector
	Getty Realty Corp.	GTY	GTY US	Joshua Dennerlein
	Highwoods Properties	HIW	HIW US	Camille Bonnel
	InvenTrust Properties	IVT	IVT US	Jeffrey Spector
	Kilroy Realty Corporation	KRC	KRC US	Camille Bonnel
	Macerich	MAC	MAC US	Jeffrey Spector
	OMEGA Healthcare	OHI	OHI US	Joshua Dennerlein
	Realty Income	O	O US	Jeffrey Spector

## US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Retail Opportunity Investments Corp.	ROIC	ROIC US	Jeffrey Spector
	SL Green Realty	SLG	SLG US	Camille Bonnel
	Sun Communities	SUI	SUI US	Joshua Dennerlein
	UDR, Inc.	UDR	UDR US	Joshua Dennerlein
	Veris Residential Inc	VRE	VRE US	Joshua Dennerlein
	Vornado Realty	VNO	VNO US	Camille Bonnel

## UNDERPERFORM

	American Assets Trust	AAT	AAT US	Camille Bonnel
	Armada Hoffer Properties	AHH	AHH US	Camille Bonnel
	Camden Property Trust	CPT	CPT US	Joshua Dennerlein
	Douglas Emmett	DEI	DEI US	Camille Bonnel
	Healthpeak Properties, Inc.	PEAK	PEAK US	Joshua Dennerlein
	Hudson Pacific Properties, Inc.	HPP	HPP US	Camille Bonnel
	Kennedy Wilson	KW	KW US	Joshua Dennerlein
	LXP Industrial Trust	LXP	LXP US	Camille Bonnel
	Medical Properties Trust, Inc.	MPW	MPW US	Joshua Dennerlein
	Mid-America Apartment Communities, Inc.	MAA	MAA US	Joshua Dennerlein
	National Storage Affiliates Trust	NSA	NSA US	Jeffrey Spector
	NetSTREIT	NTST	NTST US	Joshua Dennerlein
	NNN REIT Inc	NNN	NNN US	Joshua Dennerlein
	Paramount Group	PGRE	PGRE US	Camille Bonnel
	Peakstone Realty Trust	PKST	PKST US	Joshua Dennerlein
	STAG Industrial	STAG	STAG US	Camille Bonnel
	Tanger Factory	SKT	SKT US	Jeffrey Spector
	WP Carey	WPC	WPC US	Joshua Dennerlein

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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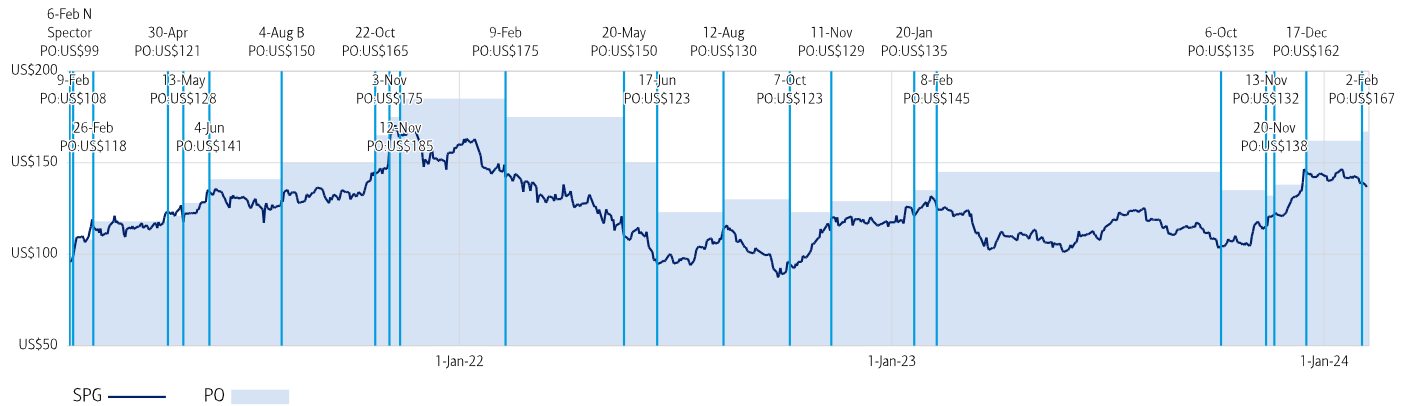
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### Simon Property (SPG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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