



## Fitch Affirms Kimco's IDR at 'BBB+'; Outlook Stable

Fitch Ratings-New York-05 March 2019: Fitch Ratings has affirmed the ratings of Kimco Realty Corporation (NYSE: KIM) at 'BBB+'. A full list of rating actions follows at the end of the release.

KIM's large, stable and diversified portfolio and appropriate leverage ratio, which Fitch expects to sustain in the mid to high 5.0x range, support its ratings. Balancing these credit positives include the company's adequate, but below-peer contingent liquidity, based on KIM's 2.0x unencumbered asset coverage of unencumbered debt (UA/UD) and moderately elevated adjusted funds from operations (AFFO) payout ratio. KIM's 10% share discount to NAV implies limited access to attractively priced public equity.

### KEY RATING DRIVERS

#### Moderating Leverage:

Fitch expects KIM's leverage to sustain in the mid to high 5x range through the forecast period absent meaningful issuance of common equity. The company's shares trade at a 10% discount to KIM's consensus net asset value (NAV) estimate, limiting the likelihood of near-term equity issuance absent improved market sentiment around physical retail demand.

Fitch assumes KIM will monetize its investment in grocer Albertsons providing approximately \$400 million in cash proceeds to be used for debt reduction in 2020 and 2021. As part of the company's 2020 Vision plan, KIM has been disposing of properties with weaker growth prospects and using the proceeds for (re)development and debt reduction. KIM disposed of approximately \$1 billion of assets in 2018 - net of acquisitions the total proceeds from sales were approximately \$900 million. Dispositions have helped KIM reduce its leverage to the high 5x range for the quarter ended Dec. 31, 2018 from the mid 6x range as of Dec. 31, 2017.

KIM's fixed charge coverage (FCC) was 2.6x for the TTM ended Dec. 31, 2018. Fitch expects the company's FCC will improve to the low 3.0x range.

Stable, Diversified Portfolio: SSNOI growth improved to 2.9% in 2018 versus 1.7% in 2017, reflecting stronger organic performance of the company's core portfolio. The scale, diversification and laddered leasing within KIM's portfolio provide for generally durable cash flows from operations. Leasing spreads increased at a blended 9% for the year ended Dec. 31, 2018, down from a low double digit spread from 2015-2017.

Fitch assumes SSNOI, excluding redevelopment, will grow 1.5%-2.0% annually through the forecast period as occupancy levels remain flat while the company sustains a high single-digit blended increase for expiring and new leases and a weighted average annual contractual lease increase of 1.25% on continuing leases. Approximately 7% of ABR expires in 2019 followed by 11%-12% on average annually through 2021.

KIM's portfolio is well diversified with some concentration in the northeast U.S. The company's top seven markets represent 46.4% of ABR; the New York Metro area is the company's largest market representing 13.4% of ABR and approximately 30% of ABR is from the New York - Washington D.C. corridor, which includes Philadelphia and Baltimore.

Kimco has a well-diversified tenant roster comprised of a mix of national, regional and local retailers. The company's 25 largest tenants represent a low 34.4% of total annual base rent as of Dec. 31, 2018. Top tenants include TJX Companies (3.7% of ABR), Home Depot (2.6%) and Ahold Delhaize (2.2%) which are considered strong credits. The most notable credit concerns relate to PetSmart (1.9% of ABR) and Petco (1.1%).

**Adequate Contingent Liquidity:** Fitch calculates KIM's contingent liquidity in the form of UA/UD at 2.0x when stressing unencumbered NOI at an 8% capitalization rate. The company's UA/UD is at the typical 2.0x threshold that Fitch views as appropriate for investment-grade REITs. If improvement in UA/UD is to occur, the company will need to continue to unencumber the portfolio as future mortgage debt maturities take place. The stabilization of unencumbered (re)development projects should help improve the UA/UD ratio.

**Strong Unsecured Debt Access:** KIM's capital access is a key factor in its 'BBB+' rating. The company's high credit rating, its absolute size and size of its issuances offer a liquid trading market for its bond issuances. Recently, KIM's bonds have priced in line with 'BBB+'-rated issuers.

The company's shares currently trade an estimated 10% below consensus net asset value (NAV) as retail real estate operators have suffered declining share values due to broader brick-and-mortar retail industry concerns. Fitch's base case analysis assumes the company is unwilling to issue equity due to continued weakness in the company's stock price when compared with NAV per share.

KIM's AFFO payout ratio has increased steadily since 2012 - as dividend increases have outpaced AFFO growth - limiting the amount of capital the company retains. Based on its approximate adjusted funds from operations (AFFO) payout ratio of 100% in 2018, the company's payout ratio is significantly higher than the 75%-80% REIT average in Fitch's rated universe.

**Development Exposure:** KIM has a total of approximately \$900 million in active development and redevelopment projects in the pipeline, which are expected to be completed and stabilized through 2021. KIM's unfunded (re)development commitments totalled approximately \$400 million, or 3% of gross assets at Dec. 31, 2018.

The projects include two ground-up development projects totaling approximately \$360 million in estimated costs and 31 redevelopment projects representing approximately \$550 million in estimated costs with a Fitch estimated 7% cash yield. Approximately two-thirds of KIM's development pipeline is preleased as of Dec. 31, 2018, demonstrating progress toward stabilization and a reduction in exposure.

**Preferred Stock Notching:** The two-notch differential between KIM's Issuer Default Rating (IDR) and its preferred stock rating is consistent with Fitch's criteria for corporate entities with an IDR of 'BBB+'. Based on Fitch's Corporate Hybrids Treatment and Notching Criteria, these preferred securities are deeply subordinated and have loss absorption elements that would likely result in poor recoveries in the event of a corporate default.

## DERIVATION SUMMARY

KIM's credit metrics and internal growth are commensurate with its shopping center peers in the 'BBB' rating category. The company's large and diversified portfolio of assets held in desirable markets positions it at the higher range of the rating category, with its capital access a factor supporting the 'BBB+' IDR.

Fitch is expecting leverage to sustain in the mid to high 5x range, lower than 'BBB-'-rated peer Brixmor Property Group (BBB-/Outlook Stable) and similar to Site Centers Corp. (BBB-/Outlook Stable). KIM's UA/UD ratio at 2.0x is on the cusp of the level Fitch views as appropriate for investment-grade REIT issuers. Federal Realty's (A-/Stable) lower leverage, stronger portfolio demographics and metrics, and capital access justify its higher rating.

## KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for KIM include:

- SSNOI growth of approximately 1.5%-2.0% through the forecast period;
- Net dispositions of \$200 million in 2019, \$50 million in 2020 and 2021;
- Development/redevelopment deliveries of \$400 million in 2019 and 2020 and \$300 million in 2021 at yields of 7% on delivered stabilized projects;
- Monetization of the company's investment in Albertson's in 2020-2021 representing approximately \$400 million in gross proceeds;
- \$900 million of total unsecured bond issuance in 2020 and 2021;
- No common equity issuance through the forecast period.

## RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Fitch's expectation of net debt to recurring operating EBITDA sustaining below 5x (leverage was in the high 5x range for the quarter ended Dec. 31, 2018);
- Fitch's expectation of REIT fixed-charge coverage sustaining above 3.5x (coverage was 2.6x for the TTM ended Dec. 31, 2018);
- Unencumbered asset coverage of unsecured debt (based on a stressed 8% cap rate) sustaining above 2.5x.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Fitch's expectation of net debt to recurring operating EBITDA sustaining above 6.0x;
- Fitch's expectation of REIT fixed-charge coverage sustaining below 2.5x.
- Failure to maintain unencumbered asset coverage of unsecured debt (based on a stressed 8% cap rate) above 2.0x.

## LIQUIDITY

Liquidity Coverage at 3.1x: KIM's liquidity coverage is strong at 3.1x for the period Jan. 1, 2019 to Dec. 31, 2020. Fitch defines liquidity coverage as sources of liquidity (unrestricted cash, availability under its unsecured revolving credit facility, estimated retained cash flow from operating activities less distributions and proceeds from divestitures) divided by uses of liquidity (pro rata debt maturities, cost-to-complete development and redevelopment expenditures and maintenance capex).

Fitch estimates KIM is on pace to retain between \$100 million-\$150 million of operating cash flow in both 2019 and 2020. Fitch also anticipates approximately \$200 million in proceeds from the company's liquidation of its investment in grocery store company Albertsons in 2020.

## FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Kimco Realty Corporation

- IDR at 'BBB+';
- Unsecured revolving credit facility at 'BBB+';
- Senior unsecured notes at 'BBB+';
- Preferred stock at 'BBB-'.

The Rating Outlook is Stable.

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Summary of Financial Statement Adjustments - -Financial statement adjustments that depart materially from those contained in the published financial statements of the relevant rated entity or obligor are disclosed below:  
--Historical and projected recurring operating EBITDA is adjusted to add back non-cash stock-based compensation;  
--Fitch has adjusted the historical and projected net debt by assuming the issuer requires \$37.5 million of cash for working capital purposes, which is otherwise unavailable to repay debt;  
--Fitch has included 50% of the company's cumulative perpetual preferred stock as debt in certain ratios.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)  
Applicable Criteria  
Corporate Hybrids Treatment and Notching Criteria (pub. 09 Nov 2018)  
Corporate Rating Criteria (pub. 19 Feb 2019)

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Entity/Security	ISIN/CUSIP/COU PON RATE	Rating Type	Solicitation Status
Kimco Realty Corporation	-	Long Term Issuer Default Rating	Unsolicited
Kimco Realty Corporation cumulative redeemable preferred stock class I	US49446R7944	Long Term Rating	Unsolicited
Kimco Realty Corporation preferred shares ser K	US49446R7456	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 230 mln 5.25% preferred stock/security	-	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 225 mln 5.125% preferred stock ser L	US49446R7373	Long Term Rating	Unsolicited
Kimco Realty Corporation cumulative redeemable preferred stock ser J	US49446R7787	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAL33	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAN98	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAK59	Long Term Rating	Unsolicited
Kimco Realty Corporation notes	US49446RAR03	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 500 mln 3.3% bond/note 01-feb-2025	US49446RAU32	Long Term Rating	Unsolicited
Kimco Realty Corporation notes	US49446RAP47	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 400 mln 3.8% bond/note 01-apr-2027	US49446RAS85	Long Term Rating	Unsolicited
Kimco Realty Corporation senior unsecured bond/note	US49446RAM16	Long Term Rating	Unsolicited
Kimco Realty Corporation notes	US49446RAQ20	Long Term Rating	Unsolicited
Kimco Realty Corporation USD 350 mln 4.45% bond/note 01-sep-2047	US49446RAT68	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COU PON RATE	Rating Type	Solicitation Status
Kimco Realty Corporation USD 2.25 bln Floating LIBOR 1.55% revolving credit facility 17-Mar-2021	-	Long Term Rating	Unsolicited
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