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Research Update:

Kimco Realty Corp. 'BBB+' Issuer And Debt Ratings Affirmed On Improved Liquidity Profile; Outlook Stable

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Overview

- We expect U.S. retail REIT Kimco Realty Corp.'s cash flow to further strengthen, benefiting from redevelopment and capital recycling efforts. As a result, we are revising our liquidity assessment to strong from adequate.
- We are affirming all our ratings, including the 'BBB+' issuer credit rating, on Kimco.
- The stable outlook reflects our view that the company's net operating income (NOI) will increase modestly over the next few years, as development and redevelopment completions increase meaningfully while the company also focuses on improving leasing spreads.

Rating Action

On Sept. 12, 2018, S&P Global Ratings affirmed its 'BBB+' issuer credit rating on New Hyde Park, NY-based Kimco Realty Corp. The outlook is stable.

At the same time, we affirmed the 'BBB+' issue-level rating on the company's senior unsecured notes and the 'BBB-' rating on its preferred stock.

Rationale

The affirmation follows our improved assessment of Kimco's liquidity profile (to strong from adequate) as we anticipate the company will generate greater cash flow in upcoming years as its redevelopment projects come online. Kimco continues to successfully execute on its disposition program, with the sale of 38 shopping centers and four land parcels for $531.8 million thus far in 2018. The majority of proceeds are earmarked for redevelopment and development investments, which we believe will modestly increase cash flow and improve the company's asset quality.

Kimco's portfolio is relatively large, with an undepreciated asset base of $11.5 billion as of June 30, 2018. Moreover, it is relatively well diversified by geography and tenant base, with its top 10 tenants accounting for 20.2% of annualized base rent (ABR). Its top tenants, The TJX Cos. Inc. (A+/Stable/A-1) and The Home Depot Inc. (A/Stable/A-1) represent 3.6% and 2.5% of ABR, respectively.

Kimco posted strong operating results for the second quarter ended June 30, 2018. Same-property NOI growth was 3.8% (excluding redevelopments), occupancy was 96% (an improvement of 50 basis points over the prior year period), and rental rates for new leases were up 11.5% while renewals/options increased 8.5%. Approximately 75% of the company's properties are grocery-anchored, an asset type we view favorably, as grocers tend to generate stable cash flows and are more resistant to e-commerce pressures.

We expect Kimco's simplified and more focused strategy, with an emphasis on redevelopment and development opportunities in select U.S. markets, to drive operating performance over the next few years. We anticipate EBITDA should grow more meaningfully in 2019 and 2020 as the company's recent development and redevelopment projects will be completed and more accretive to cash flow. Other assumptions in our base case scenario include:

- Modest economic growth including U.S. real GDP growth of 3.0% in 2018 and 2.5% in 2019 and low unemployment levels should help drive a generally favorable economic backdrop;
- We expect tenant distress to abate for the remainder of 2018, as we anticipate retailer bankruptcies to have less of an impact than in prior years;
- Same-property NOI growth of approximately 2.5% in 2018 and 2% to 3% in 2019;
- Dispositions totaling approximately $800 million in 2018;
- Redevelopment funding of approximately $200 million to $300 million annually; and
- No additional share repurchases in 2018 or 2019.

Based on these assumptions, we arrive at the following credit metrics:

- Debt to EBITDA in the low-7x area in both 2018 and 2019;
- Fixed-charge coverage in the low-3x area in both 2018 and 2019; and
- Debt to undepreciated capital in the low- to mid-50% area in both years.

Kimco has operated a balance sheet that is more leveraged that those of its peer group. Although we are projecting an increase in NOI given the company's redevelopment efforts, it does not materially improve the company's credit protection measures in the next two years. We project S&P Global Ratings-adjusted debt to EBITDA to decline to the low-7x area by year-end 2018, with fixed-charge coverage in the low-3x area. Kimco's debt capital structure is predominantly fixed-rate (90.6% as of June 30, 2018), with a weighted-average interest rate of 3.82% and weighted-average maturity of 10.5 years.

Liquidity

We view Kimco's liquidity as strong, reflecting our expectation that liquidity sources will exceed uses by about 1.5x over the next 12 months, and net sources would remain positive even with a 15% decline in EBITDA (a REIT specific threshold for strong liquidity), supported by cash on hand and short term investments, availability under its revolving credit facility, and cash flow generation. We also believe the company has sufficient covenant headroom for forecasted EBITDA to decline by 15% without the company breaching covenant tests, the likely ability to absorb high-impact, low-probability events without refinancing, a generally high standing in the credit markets, and well-established relationships with its banks.

Principal liquidity sources:

- $318.7 million in unrestricted cash and marketable securities as of June 30, 2018;
- Full availability under the company's $2.25 billion unsecured revolving credit facility that matures in March 2021 with two additional six-month options to extend the maturity date, at the company's discretion, to March 2022; and
- Projected cash funds from operations (FFO) of approximately $700 million to $750 million over each of the next two years.

Principal liquidity uses:

- Principal mortgage amortization of roughly $25 million to $35 million per year;
- Maintenance capital expenditures of approximately $65 million per year;
- Approximately $470 million of unfunded development and redevelopment projects at June 30, 2018; and
- Common dividend distributions of approximately $500 million to $550 million in each of the next two years.

Other Liquidity Considerations

Kimco maintains a substantial unencumbered pool of wholly owned assets. The company's ratio of secured debt to total assets was low (4%) and NOI generated from unencumbered properties was approximately 90% as of June 30, 2018. This large balance allows Kimco the flexibility to add secured debt for debt refinancing purposes while having substantial cushion within its bond and facility covenants.

Outlook

The stable outlook reflects our view that Kimco will continue to deliver modest NOI growth over the next two years as its redevelopment projects support a steady increase to cash flow. We expect that Kimco's disposition program will be substantially complete at the end of 2018 and that the company will opportunistically grow through acquisitions and redevelopment.

Upside scenario

We could raise our ratings if Kimco further reduces debt to EBITDA (which includes S&P Global Ratings' adjustments of preferred stock as 100% debt)to the low-to-mid-6x range. While we do not consider an upgrade likely over the next 12 to 24 months given our growth assumptions, we could envision a scenario in which Kimco is able to monetize its Albertson's investment and use proceeds to pay down its debt, which could enable the company to reach our targeted thresholds for positive ratings momentum. We could also consider a higher rating if Kimco significantly improves the asset quality of its portfolio or grows meaningfully in size, perhaps through an acquisition, which could change our view on the company's business prospects, while also continuing on its path of deleveraging.

Downside scenario

We do not view a downgrade as likely over the next two years given our expectations for operating trends to remain healthy and financial policy to remain stable. However, we could consider a lower rating if greater-than-expected tenant distress (because of an overall soft retailing landscape pressuring debt coverage) or a more aggressive financial policy in terms of development activity or acquisitions, results in fixed-charge coverage falling below 2.1x and debt to EBITDA rising above 8.5x on a sustained basis.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Strong
- Country risk: Very low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: bbb+

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- REITrends: U.S. REITs' Credit Quality Withstands Rising Interest Rates, Stunted Valuations, And Lower Refinancing Requirements, Aug. 23, 2018

Ratings List

Ratings Affirmed

Kimco Realty Corp.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Preferred Stock	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.