

EQUITY RESEARCH

November 14, 2022

Earnings Update

SMARTCENTRES REAL ESTATE INVESTMENT TRUST

A Big, Smart Pipeline

Our Conclusion

SRU's stability showed through again, reporting in-line results (after adjusting for certain one-time items). The REIT continues to demonstrate how high-quality retail assets remain in demand from a broad array of tenants, with its Walmart-anchored, necessity-based focus continuing to be the bulwark of its operations, allowing both occupancy and collection rates to improve sequentially, effectively back to pre-pandemic levels. With a largely stabilized portfolio, we believe the REIT's robust development pipeline will be the key driver of future growth. Indeed, SRU boasts a class-leading development team with a proven multi-cycle track record, which we believe will, in time, create a more regular stream of development FFO that the market will ultimately begin ascribing a value to (as opposed to a "one and done" approach which seems to have been taken over the past few years).

We are keeping our Outperformer rating, while conservatively increasing our utilized cap rate 25 bps to 6.25%, reflective of the current rate environment. We are introducing our 2024 FFO estimates and lowering our NAV to \$33.50 (from \$34.50) while maintaining our price target of \$33.00 based on a slight discount to NAV. We note that our current 2023 FFO estimates do not include any potential transactional assumptions, which would be further accretive versus our estimates.

Key Points

Earnings Results: SRU reported diluted FFO per unit of \$0.49, behind both consensus of \$0.54 and our estimate of \$0.52 (with variance being attributable to the negative impact of the REIT's total return swap, an impact we do not model for; absent this, results were otherwise right in line). We note that the REIT recorded a ~\$92.5MM fair value loss on investment properties as a result of a ~\$105.5MM fair value loss on income properties, offset by an ~\$12.9MM fair value gain from PUD. Additionally, SRU expanded its utilized cap rate by 10 bps to ~5.92% for its IPP.

Balance Sheet: Debt/Total Assets was 43.7%, a slight improvement from 44.5% in Q3/21. Furthermore, the REIT had ~\$509.6MM in available liquidity (as measured by undrawn credit facilities and cash on hand), with ~\$64.2MM of secured debt (~6.4%) due to mature in 2022.

Development Activity: During the quarter, the Trust launched its first phase for Park Place, a two high-rise condominium building with 1,094 rental units. Additionally, the REIT is expected to commence the first phase of ArtWalk in Q4/22, with deliveries expected in 2026-2027. SRU's development pipeline continues to be one of the most extensive within our coverage universe and, in our view, should be a driver for future growth.

Subsequent Events: Subsequent to September 30, 2022, \$101.4MM in mortgage receivables with Penguin were repaid in cash, with proceeds used to repay a portion of the REIT's outstanding revolving credit facility.

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 5. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

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Outperformer

SRU.UN-TSX, Sector: Real Estate

Current Price (11/14/22): C\$28.58

Price Target (12-18 mos.): C\$33.00

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
FFOPS	2.19A	2.03E	2.14E	2.23E
Prior		2.04E	2.19E	
AFFOPS	2.07A	1.91E	2.03E	2.11E
Prior		1.93E	2.07E	

FFOPS	Q1	Q2	Q3	Q4
2021	0.50A	0.58A	0.56A	0.56A
2022	0.51A	0.50A	0.49A	0.52E
Prior			0.52E	

Valuation	2021	2022	2023	2024
P/FFOPS	13.1x	14.1x	13.4x	12.8x
P/AFFOPS	13.8x	15.0x	14.1x	13.5x

Stock Performance and Key Indicators

Net Asset Value:	C\$33.50	Shares O/S:	178.1M
Market Cap.:	C\$5,090M	Float:	141.0M
52-wk Range:	C\$25.14 - C\$33.37	Div. / Yield:	C\$1.85/6.61%

TSX Composite Index vs. SRU.UN-TSX



(Source: FactSet)

SmartCentres Real Estate Investment Trust (SRU.UN-TSX) — Outperformer

Price (11/14/22) C\$28.58 12-18 mo. Price Target C\$33.00

Sector: Real Estate

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Leadership Team

Mitchell Goldhar - Exec. Chairman & CEO
 Rudy Gobin — EVP, Asset Management
 Peter Slan — CFO

Per Share Data	2021	2022E	2023E	2024E
AFFOPS	2.07	1.91	2.03	2.11
FFOPS	2.19	2.03	2.14	2.23

Source: Factset, Company Reports and CIBC World Markets Inc.

Price Target Calculation & NAV

CIBC 2023E FFO:	\$2.14
Target Multiple (2023E FFO):	15.4x
CIBC Price Target:	\$33.00
Implied 12 — 18 Month Total Return:	22%
CIBC NAV(E):	\$33.50
Premium / (Discount) to NAV:	(15%)
Cap Rate:	6.25%

Total Return	2020	2021	2022
Price Return	(26.0%)	40.3%	(11.7%)
Yield	5.9%	8.0%	4.3%
Total	(20.1%)	48.3%	(7.4%)

Debt Maturity Schedule (\$MM)	2022	2023	2024
Secured Debt	\$74.5	\$239.2	\$151.0
Unsecured Debt	\$13.2	\$200.0	\$370.0
Annual Debt Maturities	\$87.7	\$439.2	\$521.0
WAIR			3.67%

Core Liquidity (\$MM)

Cash & Equivalents	\$19.5
Undrawn Credit Facilities	\$490.1
Total	\$509.6

Annual SPNOI Growth %	Q1	Q2	Q3	Q4
2022	2.3%	5.0%	3.1%	
2021	(4.8%)	9.6%	6.6%	3.5%
2020	0.3%	(13.2%)	(8.3%)	(6.7%)
2019	(0.2%)	(0.3%)	(0.1%)	(0.4%)

Recent Occupancy History	Q1	Q2	Q3	Q4
2022	97.0%	97.2%	97.6%	
2021	97.0%	97.1%	97.3%	97.4%
2020	97.8%	97.6%	97.1%	97.0%
2019	97.8%	97.8%	98.1%	98.1%

Top 5 Tenants (At Q3/22)	Stores	% of Rent
Walmart	100	25.3%
Winners, HomeSense, and Marshalls	56	4.5%
Canadian Tire, Mark's and FGL Sports	71	4.4%
Loblaws and Shoppers Drug Mart	24	2.8%
Sobeys	16	2.1%

Company Profile

SmartCentres invests in unenclosed retail centres across Canada, mainly anchored by Wal-Mart. The REIT also owns SmartCentres, Canada's largest retail developer.

Investment Thesis

1) Fully Aligned with Leading Development Capabilities: As a result of the SmartCentres acquisition, the REIT has full in-house real estate platform capabilities and an enhanced capability to capture development gains;

2) Developments Contributing To FFO Growth: The first material development completions started contributing in 2020, and should bolster Y/Y FFO growth for the foreseeable future;

3) High Quality Portfolio: SmartCentres has industry leading property characteristics, with occupancy generally coming in at 97%+ over the past five years.

Price Target (Base Case): C\$33.00

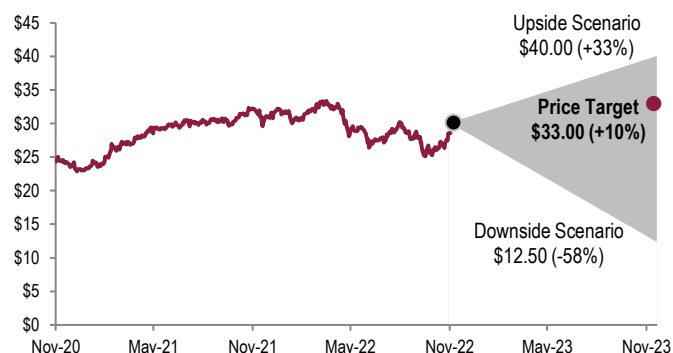
Our base case price target of \$33.00 is based on a modest discount to our NAV estimate.

Upside Scenario: C\$40.00

We assume that NOI is 2.5% above our base case expectations, cap rates are 25 bps lower, and units trade at a 5% premium to NAV.

Downside Scenario: C\$12.50

We assume a stagflationary environment a reduction in NOI as a result of margin compression, slowing rental growth, and a reduction in occupancy.



Comparables Table	2020	2021	2022E	2023E
FFO Multiples				
SmartCentres REIT	13.0x	13.1x	14.1x	13.4x
Peer Group ¹	14.9x	14.0x	13.8x	13.2x
AFFO Multiples				
SmartCentres REIT	13.7x	13.8x	15.0x	14.1x
Peer Group ¹	17.1x	15.9x	15.6x	14.9x

Leverage Summary

	Q3/22	Q3/21	Limit
EBITDA Interest Coverage:	3.3x	3.3x	1.65x
D / Total Assets:	4..7%	44.5%	65.0%

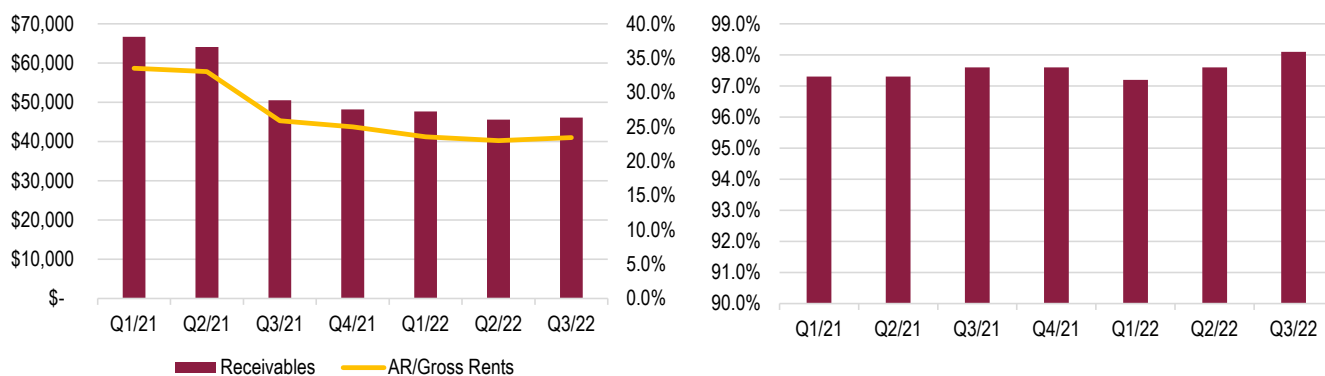
Note¹: CHP.UN, FCR.UN, CRT.UN and REI.UN.

Source: FactSet, company reports and CIBC World Markets Inc.

Q3 Recap: What Really Matters Moving Forward?

Operating Results: SRU reported strong operating results, with SP-NOI growth of ~3.1%, inclusive of ECL (+2.3% excluding ECL), driven by increased occupancy (+50 bps), and higher rents (+0.8%) as a result of higher rental income from the REIT's Premium Outlet locations in Toronto and Montreal, in addition to higher revenues from self-storage facilities and parking rental revenue. Strengthening retail leasing continues to be experienced across all provinces, with NOI and occupancy expected to continue throughout the year. SRU's reported renewal rates of 85.7%, highlighting the strong demand for the REIT's Walmart-anchored shopping centers. Collection rates also continue to remain strong at 99% for the quarter. With looming fears of an economic recession (or slowdown), we have attempted to assess the underlying financial health of the REIT's tenants to provide a lens into potential credit issues. Using AR/Gross Rents as a proxy for credit build up (while acknowledging its limitations), we find there appears to have been no material decline in SRU's ability to collect owed rents (and instead a steady improvement). The left and right-hand bar charts in Exhibit 1 illustrate the historical credit trends and occupancy rates for tenants, respectively.

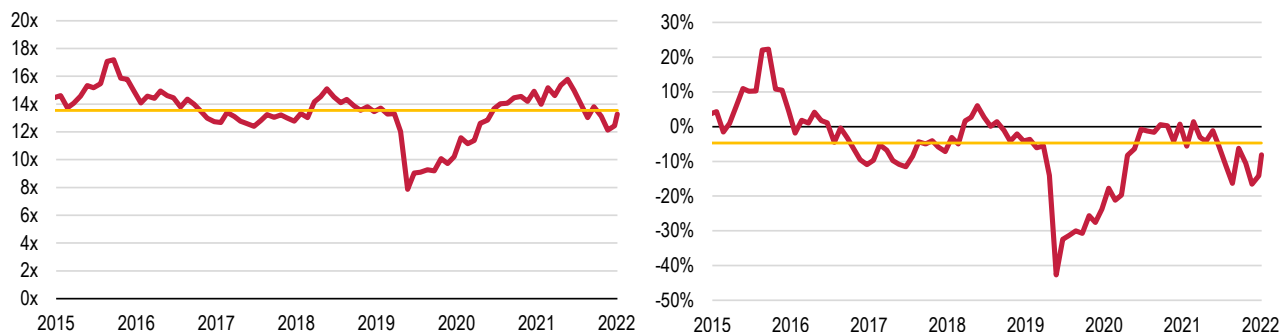
Exhibit 1: SRU.UN – Receivables (\$000) And AR/Gross Rent (left); Occupancy Rates (right), Q1/21-Q3/22



Source: Company reports and CIBC World Markets Inc.

Valuation: SRU units are down ~11% YTD vs. the XRE down ~18%, and are trading at a ~8% discount to consensus NAV. Historically, SRU's cap rate has been at a ~400bps spread to the 10-year GoC yield (the typical pricing benchmark for long-term assets). Given the rapid acceleration of bonds yields (+184 bps since 2021), one could reasonably assume that cap rates should expand accordingly (although not on a 1:1 basis). That being said, the current supply/demand dynamics differ significantly from that of the past, as there has been an increasing demand for high-quality assets in desirable locations post-pandemic, resulting in well above-average rent pressures, suggesting the historical cap rate spread may no longer be appropriate. The REIT currently trades at a consensus forward 2023 P/FFO estimate of ~13x, compared to the pre-pandemic average of ~14x. The left and right-hand line charts in Exhibit 2 illustrate the historical discount to NAV and forward P/FFO multiples, respectively.

Exhibit 2: SRU.UN – Forward P/FFO (left) And Historical Premium/Discount To Consensus NAV (right), 2022



Source: Company reports, FactSet and CIBC World Markets Inc.

Environmental, Social and Governance (ESG) Metrics for SRU.UN-TSX

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	22.2%	22.0%	20.8%	21.4%	21.5%
Board Gender Diversity	0.0%	12.5%	12.5%	12.5%	37.5%
Separation of Chair & CEO	YES	YES	YES	YES	NO
Dual-class Ownership?	YES	YES	YES	YES	YES
Disclose ESG Data?	NO	NO	YES	NA	NA
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$0.3	\$0.3	\$0.4	\$0.6	\$0.46
Diversity Targets	YES	YES	YES	YES	YES
Women Managers	31%	28%	32%	31%	NA
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NO	NO	NO	NO	NO

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO₂e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

15.1 **-0.4** **Low Risk**

Updated on
Jan 24, 2022

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	1423/14707	11th
Real Estate INDUSTRY	284/1024	28th
REITs SUBINDUSTRY	185/437	43rd

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score Category	ESG Risk Management Score Category	ESG Risk Rating Score Category	Contribution to ESG Risk Rating
Corporate Governance	9.0 High	58.2 Strong	3.8 Low	24.9%
Human Capital	4.0 Medium	29.0 Average	2.9 Low	19.2%
ESG Integration -Financials	5.4 Medium	40.9 Average	3.2 Low	21.2%
Product Governance	4.0 Medium	7.5 Weak	3.7 Low	24.5%
Business Ethics	3.0 Low	51.2 Strong	1.5 Negligible	10.2%
Overall	25.4 Low	41.2 Average	15.1 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	9	0	Value	52	+62
Momentum	13	+1	Momentum	144	+107
Quality	9	0	Quality	113	+119
Market	11	0	Market	136	+140
Low Volatility	3	0	Low Volatility	18	+24
Growth	29	-1	Growth	147	+165

Note: Ranking out of 44 stocks

Note: Ranking out of 234 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	-5	Momentum	D
Beta	0.87	MACD	A
Volatility	↔	Alpha (Sector)	A
Trend	↔	Alpha (Index)	D
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.

Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

Trend/Volatility metrics measure price deviations relative to underlying moving averages.

RSI is an oscillator that provides mean-reversion estimations.

MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Price Target Calculation

Our base case price target of \$33.00 is based on a modest discount to our NAV estimate.

Key Risks To Price Target

Risks include the potential for an unanticipated increase in interest rates, unexpected deterioration in economic and/or business conditions, and/or diversion of investors' capital flows toward other asset classes, away from REITs.

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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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Neutral	133	44%	Neutral	133	100%
Underperformer	6	2%	Underperformer	6	100%
Tender	3	1%	Tender	3	100%
Restricted	10	3%	Restricted	10	100%

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