



COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

Key Metrics

SPG - NYSE (as of 1/30/2018)	\$162.61
Price Target	\$188.00
52-Week Range	\$150.15 - \$187.35
Shares & Units Outstanding (mm)	358
Market Cap. (\$mm)	\$58,214
3-Mo. Average Daily Volume (000)	1,849
Institutional Ownership	98%
Debt/Total Market Capital (12/17)	34%
Annual Dividend	\$7.80
Dividend Yield	4.8%
Fixed Charge Coverage (12/17)	5.0x

FFO Per Share FY 12/31

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$2.63	\$2.74	\$2.85	\$2.83
2Q	\$2.63	\$2.47	\$2.97	\$2.95
3Q	\$2.70	\$2.89	\$3.07	\$3.01
4Q	\$2.53	\$3.12	\$3.33	\$3.21
Year	\$10.49	\$11.21	\$12.22	\$12.00
P/FFO	15.5x	14.5x		13.6x

Quarterly FFO amounts may not add up to annual amounts due to rounding.

NOI (Net Operating Income) (\$mm)

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$942	\$976	\$1,021	\$1,006
2Q	\$947	\$980	\$1,031	\$1,015
3Q	\$971	\$999	\$1,096	\$1,036
4Q	\$1,033	\$1,032	\$1,148	\$1,072
Year	\$3,894	\$3,978	\$4,297	\$4,130

Company Description: Simon Property Group, Inc., headquartered in Indianapolis, Indiana, owns or has an interest in retail properties in North America, Europe, and Asia.

REITs

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Simon Property Group, Inc.

SPG - NYSE – Buy - 2

Fourth Quarter Results

- **Simon reported fourth quarter FFO of \$3.12 per share versus \$2.53 per share in the year ago period.** Results were slightly above ours and the consensus estimates and were positively impacted by strong releasing spreads.
- **Occupancy was down 120 basis points year-over-year at 95.6%.** We note Simon combines occupancy and rental rates for the regional malls and premium outlets, instead of reporting them separately. Releasing spreads for the trailing twelve months were up 11.4%.
- **Development Activity.** Simon has redevelopment and expansion plans underway at 25 properties in the U.S. and Canada. Simon's share of total net cost of all development and redevelopment projects under construction at quarter end was \$0.7 billion.
- **Dividend Increase.** In the 4Q17 earnings release, SPG announced a quarterly dividend increase of \$0.10 per share to a new quarterly rate of \$1.95 per share.
- **Management provided 2018 FFO per share guidance of \$11.90 to \$12.02.** Our revised 2018 FFO per share estimate is \$12.00, down from \$12.22 previously. Our lowered EPS estimate is mostly due to lower occupancy and rental rates in 2018 than we previously modeled for.
- **We are maintaining our Buy rating.** Our one year price target is lowered by a dollar to \$188.00. We believe SPG is a best in class operator and find the current stock valuation compelling.

Note Important Disclosures on Pages 6 and 7.
Note Analyst Certification on Page 6.

Additional Discussion

Total revenue for the fourth quarter was \$1.4 billion, up 0.1% from the year ago period (please see page 3). Minimum (base) rent, which made up 61.7% of total revenue, was up 0.6%. Tenant reimbursements, the next largest revenue item, were \$386.8 million versus \$377.9 million and represented an estimated 134.2% versus 134.6% of total real estate expenses, including property operating expenses, real estate taxes, maintenance, advertising and a credit loss provision.

Combined occupancy (both regional malls and premium outlets) was down 120 basis points from 4Q16 at 95.6%. Releasing spreads for the 12 months ended December 31, 2017 rose 11.4%. Comparable NOI (net operating income) increased 3.2% for the twelve months ended December 30, 2017.

Net income available to common shareholders was \$571.1 million compared to \$394.4 million in the year ago period. Funds from operations were \$3.12 per share, up from \$2.53 per share a year ago.

Overview

Retail & Leasing Environment - Total sales per square foot at Simon's malls and premium outlets were up 2.3% on a rolling twelve month basis. Base minimum rent per square foot was up 2.9% y/y and releasing spreads were up 11.4%. We believe many retailers with expansion plans would rather open up shop in quality class A malls like many of Simon's, instead of class B and C malls.

A lot of media focus lately has been given to store closings. We believe the measured re-tenanting and redevelopment of underperforming anchor space could be a good opportunity for mall REITs to grow revenue in the long term and bring different uses to the malls. Simon has development, redevelopment, and densification (adding more rentable space above and or around an existing property) plans with many different types of tenants including theaters, gyms, restaurants, hotels, residential units, and medical tenants.

Development & Renovation Activity - Simon has four new outlet centers under construction. In addition to these projects, Simon has renovation and expansion plans underway for 25 properties in the U.S. and Canada. We expect management will most likely concentrate its new development efforts on outlet centers in the near future.

Financials - In our opinion, Simon's balance sheet is well positioned. The company has \$2.2 billion of debt maturities in 2018 and \$1.1 billion in 2019, including its share of joint venture debt. Debt (including JV debt) to total market capitalization was 33.8% at December 31, 2017. At December 31, 2017, SPG had \$8.0 billion of liquidity.

Guidance and Estimates - Management initiated 2018 FFO per share guidance of \$11.90 to \$12.02. Our 2018 FFO per share estimate is \$12.00.

Quarterly Income Statement

(in thousands, except per share amounts)	4Q17	4Q16	% Change
Minimum (Base) Rent	\$880,475	\$874,937	0.6%
Overage Rent	52,870	61,253	-13.7%
Tenant Reimbursements	386,767	377,941	2.3%
Management Fees and Other Revenue	30,400	34,277	-11.3%
Other Income	77,180	77,558	-0.5%
Total Revenue	1,427,692	1,425,966	0.1%
Property Operating Expenses	112,951	104,479	8.1%
Real Estate Taxes	107,976	110,374	-2.2%
Repairs and Maintenance	24,247	27,638	-12.3%
Advertising and Promotion	42,416	38,896	9.0%
Provision (Reversal) for Credit Losses	539	(542)	
Home and Regional Office Costs	24,243	37,867	-36.0%
General and Administrative Expenses	11,883	19,939	-40.4%
Impairment Charge			
Transaction Expenses			
Marketable and Non-Marketable Securities Charges and Realized Gains, net			
Other Expenses	28,798	50,097	-42.5%
Depreciation and Amortization Expense	325,187	336,717	-3.4%
Total Operating Expenses	678,240	725,465	-6.5%
Operating Income	749,452	700,501	7.0%
Interest Expense	(204,986)	(209,508)	
Loss on Extinguishment of Debt		(136,777)	
Income Tax Benefit (Expense) on Taxable REIT Subsidiaries	(6,362)	(1,052)	
Income from Unconsolidated Entities	123,059	94,344	30.4%
Impairment Charge from Investments in Unconsolidated Entities			
Gain Upon Acquisition of Controlling Interest, and on Sale or Disposal of Assets, etc.	(1,342)	8,094	
Discontinued Operations			
Discontinued Operations Transaction Expenses			
Consolidated Net Income	659,821	455,602	44.8%
Net Income Attributable to Noncontrolling Interest	87,871	60,337	45.6%
Preferred Dividends	834	834	0.0%
Net Income	\$571,116	\$394,431	44.8%
Earnings Per Share	\$1.84	\$1.26	46.0%
Avg. Shares Outstanding	310,856	313,685	-0.9%

Funds From Operations	4Q17	4Q16	% Change
Consolidated Net Income	\$659,821	\$455,602	44.8%
Adjustments to Consolidated Net Income to Arrive at FFO:			
Depreciation and Amortization Expense	321,397	330,708	-2.8%
Depreciation and Amortization of Unconsolidated Entities	139,026	140,046	-0.7%
Impairment Charges of Depreciable Real Estate			
Gain Upon Acquisition of Controlling Interest, on Sale or Disposal of Assets, etc.	1,342	(8,094)	
Net Income Attributable to Noncontrolling Interest Holders in Properties	(734)	(563)	
Depreciation and Amortization Attributable to Noncontrolling Interest Holders	(4,248)	(4,159)	
Preferred Distributions and Dividends	(1,313)	(1,313)	
Funds From Operations	\$1,115,291	\$912,227	22.3%
FFO Per Share (diluted)	\$3.12	\$2.53	23.3%
Avg. Shares and Units Outstanding for FFO Calculations	358,025	361,187	-0.9%

Source: Company reports

Condensed Balance Sheet

(in thousands)	12/31/2015	12/31/2016	12/31/2017
Investment Properties, at cost	\$33,463,124	\$35,226,089	\$36,393,464
Less - Accumulated Depreciation	9,915,386	10,865,754	11,935,949
Net Investment in Real Estate	\$23,547,738	\$24,360,335	\$24,457,515
Cash and Cash Equivalents	701,134	560,059	1,482,309
Tenant Receivables and Accrued Revenue, net	624,605	664,619	742,672
Investment in Unconsolidated Entities, at Equity	2,481,574	2,367,583	2,266,483
Investment in Klepierre at Equity	1,943,363	1,797,394	1,934,676
Deferred Costs and Other Assets	1,352,259	1,353,588	1,373,983
Note Receivable from Related Parties			
Total Assets	\$30,650,673	\$31,103,578	\$32,257,638
Mortgage and Other Indebtedness	\$22,502,173	\$22,977,104	\$24,632,463
Accounts Payable and Accrued Expenses	1,323,801	1,214,022	1,269,190
Cash Distributions and Losses in Partnerships and Joint Ventures	1,368,544	1,359,738	1,406,378
Other Liabilities, Minority Interest and Accrued Dividends	214,249	455,040	520,363
Total Liabilities	\$25,408,767	\$26,005,904	\$27,828,394
Commitments and Contingencies			
Limited Partners' Interest in the Operating Partnership			
Limited Partners' Preferred Interest in the Operating Partnership	25,537	137,762	190,480
Series I Convertible Perpetual Preferred Stock			
Stockholders' Equity			
All Series of Preferred Stock			
Series J 8 3/8% Cumulative Redeemable Preferred Stock	43,733	43,405	43,077
Common Stock	31	32	32
Capital in Excess of Par Value	9,384,450	9,523,086	9,614,748
Accumulated Deficit	(4,266,930)	(4,459,387)	(4,782,173)
Other	(252,686)	(114,126)	(110,453)
Common Stock Held in Treasury at Cost	(437,134)	(682,562)	(1,079,063)
Total Stockholders' Equity	\$4,471,464	\$4,310,448	\$3,686,168
Noncontrolling Interest	744,905	649,464	552,596
Total Equity	\$5,216,369	\$4,959,912	\$4,238,764
Total Liabilities and Stockholders' Equity	\$30,650,673	\$31,103,578	\$32,257,638

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	12/31/2017
Net R/E Investments / Total Debt	104.6%	106.0%	99.3%
Debt to Equity	431.4%	463.3%	581.1%
Debt (including JV debt) to Total Market Capitalization	29.3%	31.6%	33.8%
Debt as % of Total Assets	73.4%	73.9%	76.4%
Shareholders' Equity as % of Total Assets	14.6%	13.9%	11.4%

Previous numbers have not been restated.

Source: Company reports

Valuation

Currently at 13.6x our 2018 FFO per share estimate of \$12.00, SPG's stock is trading at a premium to its peer group (see table below) and below its five year historic and ten year historic median forward P/FFO multiples. We believe Simon warrants a premium to its peers due to its proven track record, large market capitalization, strong balance sheet, high quality properties, and excellent management team. **We rate the shares Buy with a \$188.00 target price.** We derive our target price by applying a 15.0x multiple (a discount to the company's median 10 and 5 year historic forward price/FFO multiple to account for the current challenging retail environment) to our 2019 FFO per share estimate of \$12.56. We note that the multiple we are using is down from our previous multiple of 15.5x due to our view that the negative retail narrative may continue to put pressure on valuations in the near term. We believe our multiple is conservative.

Regional Mall REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp. Avg. Growth	18/17E Growth	Price/FFO	
		1/30/2018	Dividend			2016	2017E	2018E			FY 2017E	FY 2018E
GGP Inc.	GGP	\$23.11	\$0.88	3.8%	55.7%	\$1.57	\$1.58	\$1.61	1.3%	1.9%	14.6x	14.4x
Macerich Company	MAC	\$64.28	\$2.96	4.6%	75.1%	\$5.08	\$3.94	\$4.07	-9.9%	3.3%	16.3x	15.8x
Taubman Centers, Inc.	TCO	\$61.88	\$2.50	4.0%	67.8%	\$2.87	\$3.69	\$3.79	16.0%	2.7%	16.8x	16.3x
CBL & Associates Properties	CBL	\$5.59	\$0.80	14.3%	36.2%	\$2.69	\$2.21	\$2.03	-12.3%	-8.1%	2.5x	2.8x
Peer Average		\$38.72	\$1.79	6.7%	58.7%	\$3.05	\$2.86	\$2.88	-1.2%	-0.1%	12.6x	12.3x
S&P 500	.SPX	2,822.43	\$50.14	1.8%	38.3%	\$117.75	\$130.80	\$144.35	11.3%	10.4%	21.6x	19.6x
Simon Property Group, Inc.	SPG	\$162.61	\$7.80	4.8%	69.6%	\$10.49	\$11.21	\$12.00	7.2%	6.6%	14.5x	13.6x

Note: GGP and CBL are rated Neutral by Hilliard Lyons and the rest are not rated. SPX figures are EPS, not FFO per share.

Source: NAREIT, HL Estimates, and Thomson Eikon

Suitability

We assign shares of Simon Property Group a suitability rating of 2 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's large market cap and what we view as a strong balance sheet.

Risks and Considerations

Simon Property Group's FFO may be impacted by external factors beyond the company's control or by internal factors. These risks include, but are not limited to: interest rate risk, inability to secure financing or joint venture partners, a slowing economy, general economic risk, political risk, currency risk, international economic risk, bankruptcy of tenants, store closings, inclement weather and rising materials cost related to developments and redevelopments.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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