Position Close Update: Simon Property Group (SPG)

Simon Property Group (SPG) – Closing Long Position – up 209% vs. S&P up 66%

We made Simon Property Group (SPG: $166/share) a Long Idea on April 20, 2020 and reiterated our opinion on February 24, 2021. SPG earned a Very Attractive rating and an Attractive rating at the time of the reports, respectively. We felt the market was too focused on the short-term impact of COVID-19 shutdowns and undervalued the company's best-in-class retail portfolio, strong balance sheet, industry-leading profitability, and potential for profit growth once the pandemic subsided.

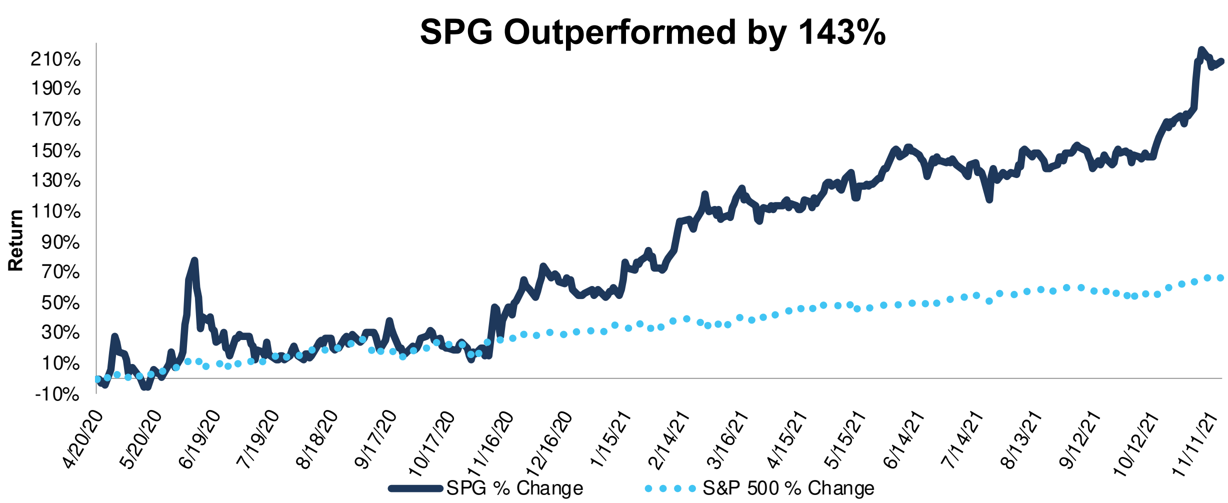
This report, along with all of our research[1], leverages our more reliable fundamental data[2], as proven in The Journal of Financial Economics and shown to provide a new source of alpha, to get the truth about earnings.

During the 1.5+ year holding period, SPG outperformed as a long position, rising 209% compared to a 66% gain for the S&P 500.

Simon Property Group weathered the depths of the pandemic shutdowns and recently raised guidance for 2021 on the back of increased shopper traffic, retailer sales, leasing activity, and declining vacancies. The firm's net operating profit after-tax (NOPAT) margin of 58% over the trailing-twelve-months is up from 48% in 2020 and its return on invested capital (ROIC) has rebounded from 8% in 2020 to 10% TTM.

However, Simon Property Group's valuation has gotten too far ahead of its fundamentals and no longer provides the same risk/reward. The expectations for future cash flows baked into the current stock price imply Simon Property Group's margins will improve to levels never achieved in the company's history while revenue grows above consensus and 3x the compound annual growth rate of the previous decade. With limited upside potential, we're taking gains and closing this long position.

Figure 1: SPG vs. S&P 500 – Price Return – Successful Long Idea



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

[1] Harvard Business School features our Robo-Analyst research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

[2] Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more here.

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Disclosure: David Trainer owns SPG. David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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