Cousins Properties (CUZ)

Updated February 15th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$4.1 B
Fair Value Price:	$33	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	4/3/2023[1]
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.1%	**Dividend Payment Date:**	4/13/2023
Dividend Yield:	4.7%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Cousins Properties (CUZ) is a self-managed real estate investment trust (REIT) that acquires, develops and leases office buildings in high-growth Sun Belt markets. It was founded in 1958 and currently has a market capitalization of $4.1 billion. The trust generates 53% of its operating income in Atlanta and 32% of its operating income in Austin. Sun Belt markets are attractive thanks to their superior economic growth compared to most other regions of the U.S.

Cousins Properties has been significantly hurt by the coronavirus crisis, which has led many companies to adopt a work-from-home model. This downturn has caught the REIT with a high debt load and hence the trust has been forced to sell some properties in order to endure the crisis.

In early February, Cousins Properties reported (2/9/23) financial results for the fourth quarter of fiscal 2022. The company posted a -4% decrease in funds from operations (FFO) per share, from $0.69 to $0.66, due to a steep increase in interest expense amid high interest rates. Same-property net operating income grew 2.5%. Due to its high debt load, which renders Cousins Properties sensitive to rising interest rates, the REIT provided guidance for FFO per share of $2.52-$2.64 in 2023. Accordingly, we expect FFO per share of $2.60 this year. It is concerning that the trust has not achieved meaningful growth in recent quarters even though the pandemic has subsided. The work-from-home trend has persisted much more than initially expected. Management has repeatedly mentioned the pressure due to the work-from-home trend and rising interest rates, which increase interest expense and may cause a recession.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$2.14	$3.23	$3.57	$1.63	$2.48	$2.55	$2.53	$2.77	$2.75	$2.72	***$2.60***	***$3.16***
DPS	$0.72	$1.20	$1.28	$0.96	$1.20	$1.04	$1.16	$1.20	$1.24	$1.27	***$1.28***	***$1.53***
Shares[2]	36.1	51.1	54.0	98.4	105.0	105.1	146.8	148.6	148.9	151.8	***155.0***	***220.0***

Cousins Properties operates in Sun Belt markets, which are characterized by superior economic growth. However, the company has exhibited a remarkably volatile performance record, which raises a red flag. In addition, it has been caught with a material debt load in the ongoing downturn and hence it has been forced to sell assets in order to strengthen its balance sheet. Its total rentable square feet have decreased in each of the last three years. Moreover, the trust has a high leverage ratio (Net Debt to EBITDA) of 4.9. Nevertheless, we believe that the worse is behind the company. Given also the expected business recovery from the pandemic, we expect Cousins Properties to grow its FFO per share at a 4.0% average annual rate over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	13.5	10.4	8.0	18.0	14.3	*13.9*	14.7	11.5	13.5	11.6	***10.4***	***12.7***
Avg. Yld.	2.5%	3.6%	4.5%	3.3%	3.4%	*2.9%*	3.1%	3.8%	3.3%	4.0%	***4.7%***	***3.8%***

[1] Estimated date.

[2] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Cousins Properties (CUZ)

Updated February 15th, 2023 by Aristofanis Papadatos

Cousins Properties is currently trading at a price-to-FFO ratio of 10.4, which is lower than its 10-year average FFO multiple of 12.7. If the stock trades at its average valuation level in five years, it will enjoy a 4.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

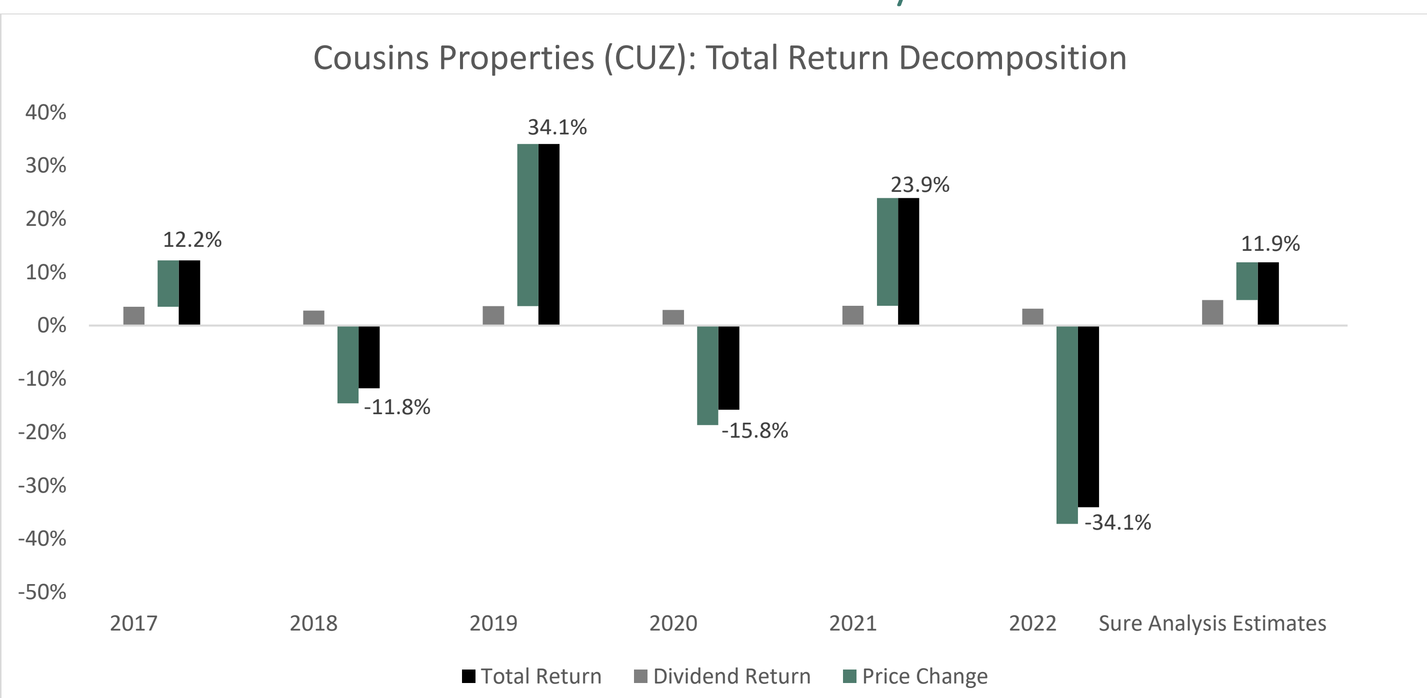
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	37%	36%	59%	48%	41%	46%	43%	45%	47%	***49%***	***48%***

Cousins Properties has well-laddered lease expirations, which provide some sort of protection against wild fluctuations in cash flows. However, the company has a volatile performance record and a choppy dividend record, with only four consecutive years of dividend growth. Moreover, Cousins Properties has a weak balance sheet, with a leverage ratio of 4.9 and net debt of $2.7 billion. As this amount of debt is approximately 7 times the annual FFO, it is easily manageable under normal economic conditions. On the other hand, the REIT is vulnerable to recessions due to its weak balance sheet and the sensitivity of its tenants to recessions. Overall, while the 4.7% dividend yield of Cousins Properties may entice some investors, we reiterate that the REIT is not suitable for income-oriented investors.

Final Thoughts & Recommendation

Cousins Properties operates in high-growth markets in the Sun Belt region but it has exhibited disappointing business performance in recent years. As a result, during the last five years, the stock has dramatically underperformed the S&P 500 (-22% vs. +51%). We consider a consistent growth record as paramount and hence we are concerned over the unreliable performance of Cousins Properties. Due to its -30% decline in the last 12 months, which has resulted from the correction of the broad market amid 40-year high inflation, the stock could offer an 11.9% average annual return over the next five years thanks to 4.0% annual growth of FFO per share, a 4.7% dividend and a 4.1% annualized expansion of its valuation level. We rate the stock as a buy, but we note that the stock will be vulnerable in the scenario of a negative development related to the pandemic or persistently high inflation.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Cousins Properties (CUZ)

Updated February 15th, 2023 by Aristofanis Papadatos

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	211	178	204	259	466	475	658	740	755	762
Gross Profit	120	101	122	162	302	311	435	489	496	504
Gross Margin	57.1%	56.7%	59.6%	62.6%	64.8%	65.3%	66.2%	66.1%	65.6%	66.1%
SG&A Exp.	22	20	17	26	28	22	37	27	29	28
D&A Exp.	76	141	135	145	197	181	257	289	288	296
Operating Profit	22	19	33	39	78	107	141	174	178	180
Operating Margin	10.2%	10.5%	16.3%	15.0%	16.7%	22.5%	21.5%	23.5%	23.6%	23.6%
Net Profit	122	52	126	79	216	79	150	237	279	167
Net Margin	57.8%	29.3%	61.4%	30.5%	46.4%	16.7%	22.9%	32.0%	36.9%	21.9%
Free Cash Flow	137	142	154	118	212	229	303	351	389	365

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,273	2,667	2,595	4,172	4,205	4,146	7,151	7,107	7,312	7,537
Cash & Equivalents	1	---	2	36	149	3	16	4	9	5
Accounts Receivable	11	11	11	24	14	13	23	20	13	9
Goodwill & Int. Ass.	171	163	125	246	186	146	258	189	169	136
Total Liabilities	814	994	912	1,657	1,380	1,325	2,724	2,612	2,712	2,890
Long-Term Debt	630	792	719	1,381	1,093	1,063	2,223	2,163	2,238	2,335
Shareholder's Equity	1,363	1,673	1,683	2,449	2,765	2,764	4,358	4,467	4,567	4,626
LTD/E Ratio	0.43	0.47	0.43	0.56	0.39	0.38	0.51	0.48	0.49	0.50

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.2%	2.1%	4.8%	2.3%	5.2%	1.9%	2.7%	3.3%	3.9%	2.2%
Return on Equity	13.4%	3.4%	7.5%	3.8%	8.3%	2.9%	4.2%	5.4%	6.2%	3.6%
ROIC	7.7%	2.3%	5.2%	2.5%	5.5%	2.0%	2.9%	3.6%	4.1%	2.4%
Shares Out.	36.1	51.1	54.0	98.4	105.0	105.1	146.8	148.6	148.9	150.4
Revenue/Share	5.84	3.47	3.79	4.05	4.41	4.45	5.06	4.98	5.07	5.07
FCF/Share	3.80	2.79	2.86	1.84	2.00	2.14	2.34	2.36	2.62	2.43

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.