EastGroup Properties, Inc. (EGP)

Updated October 30th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$198	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$8.0B
Fair Value Price:	$145	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	12/30/2021[1]
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	01/15/2022
Dividend Yield:	1.8%	**5 Year Price Target**	$208	**Years Of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	13.9%

Overview & Current Events

EastGroup Properties is an internally-managed equity real estate investment trust founded in 1969. The trust is a leading provider of multi-tenant distribution and logistics facilities primarily in Sunbelt markets such as in the states of Florida, Texas, Arizona, California, and North Carolina. Specifically, it owns 416 industrial properties and one office building in 11 states. The trust's property portfolio is currently 98.8% leased to over 1550 tenants, with no tenant accounting for more than 1% of its rental income. EastGroup generates nearly $400 million in annual rental revenues and is headquartered in Ridgeland, Mississippi.

On October 26th, EastGroup reported its Q3 results for the quarter ended September 30th, 2021. Revenues came in at $104.6 million, 13.7% higher year-over-year, with the company seeing increased leasing activity, growing rental rates, and acquiring 661,000 square feet of operating properties. FFO grew 17.5% higher from $53.6 million to $63.0 million, or by 13.9% on a per-share basis to $1.55 due to the additional shares issued to fund the recent acquisitions. To illustrate EastGroup's operational excellence, this marks 34 consecutive quarters of higher FFO/share as compared to the prior-year quarter, which is truly a long-term trend.

EastGroup continues to experience great demand for its industrial properties, recording average occupancy of 97.1%, 30 basis points higher sequentially. Powered by robust e-commerce and last-mile delivery trends combined with heavy supply chain issues, EastGroup's Sunbelt properties remain in high demand. Following better than expected results, EastGroup's guidance was hiked, now expecting FFO/share in the range of $6.01-$6.05 (previously $5.83 to $5.93) for the year. We have utilized the higher-end of this range in our calculations following the company's ever-customary tendency to deliver better results than its own estimates.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/shr	$2.96	$3.08	$3.23	$3.47	$3.67	$4.02	$4.25	$4.66	$4.98	$5.38	***$6.05***	***$8.69***
DPS	$2.08	$2.10	$2.14	$2.22	$2.34	$2.44	$2.52	$2.72	$2.94	$3.08	***$3.60***	***$5.05***
Shares[2]	26.9	28.6	30.2	31.3	32.1	32.6	34.0	35.4	37.4	39.2	***40.9***	***50.0***

As mentioned earlier, EastGroup's FFO/share growth track record is truly one of the most impressive amongst all REITs. Besides achieving operational excellence, including maximizing its occupancy and benefiting from an ever-growing demand for distribution centers amid e-commerce's growth, the company enjoys excellent demographic tailwinds. Specifically, the company's properties are located in 13 of 15 fastest-growing markets in the United States, while its two largest by income states, Texas (~36% of rental income) and Florida (~28% of rental income), are likely to see the fantastic rental growth ahead amid their overall net adds in populations and income-tax-free statuses. We don't see any catalysts for EastGroup's current growth course to materially slow down, and hence forecast FFO/share growth of 7.5% in the medium-term. To be prudent, this implies a slowdown from the company's FFO/share guidance in terms of year-over-year growth.

[1] Estimated dividend dates based on past dividend dates

[2] Share count is in millions.

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EastGroup also features one of the most impressive dividend growth track records amongst its industry peers, having hiked its dividend in 26 of the last 29 years. The REIT paused DPS growth for a few years during the Great Financial Crisis, but the dividend has never been cut. We raise our DPS growth forecast from 5% to 7% in the medium term, reflecting EastGroup's recent accelerated DPS hike and its relatively comfortable payout ratio.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	14.9	17.2	19.5	17.9	16.3	16.7	20.5	20.4	24.1	24.5	***32.7***	***24.0***
Avg. Yld.	4.7%	4.0%	3.4%	3.6%	3.9%	3.6%	2.9%	2.9%	2.5%	2.3%	***1.8%***	***2.4%***

EastGroup's valuation has historically hovered around 20 times its underlying FFO. This multiple has significantly expanded over the past couple of years, currently standing at 32.7 despite us even utilizing the higher-end of the company's outlook range. While we do appreciate EastGroup's qualities and can see why investors would keep pushing such a great stock higher during the current environment of low yields, we believe shares are currently overvalued. We assign a fair multiple of 24 in the medium-term, which better reflects EastGroup's growth trajectory.

Safety, Quality, Competitive Advantage, & Recession Resiliency

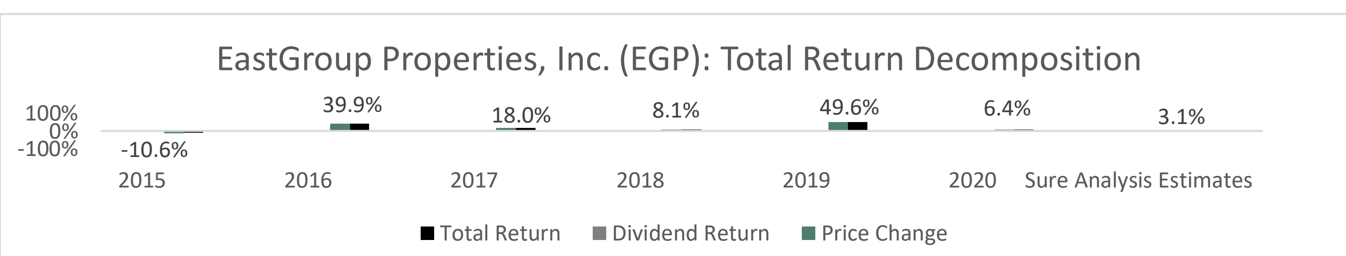
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	70%	68%	66%	64%	64%	61%	59%	58%	59%	57%	***60%***	***58%***

We consider EastGroup's dividend very safe. Payouts are widely covered, and EastGroup's recent bold DPS hike should further increase investors' confidence in that regard. The company showcases some of the highest quality characteristics amongst its peers. These include record occupancy rates, excellent rental growth prospects amid favorable demographics, and very cheap financing, including average cost of debt of around 2.50% and extremely low cost of additional share issuances amid the company's overvaluation (a positive factor in that sense.) Finally, cash flows are greatly diversified, with the top 10 tenants only accounting for ~8.0% of rents. The company's advantageous industry of operations is also a great benefit in terms of driving its future growth. We believe the company displays a great completive advantage by specializing in the Sunbelt markets. Further, due to the critical nature of its distribution properties, cash flows should remain relatively resilient even under a recession. This was the case both during the Great Financial Crisis and the ongoing COVID-19 pandemic.

Final Thoughts & Recommendation

EastGroup is a truly great company, having delivered excellent growth in its financials and capital returns. It is positioned to benefit from a favorable trading environment and its unique qualities, likely leading to robust FFO/share and DPS growth as our estimates suggest. However, we believe that the stock has run ahead of itself regarding the current valuation, which we can see as a headwind in total shareholder returns. We forecast annualized returns of around 3.1% in the medium term. Shares earn a sell rating at the moment.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	173	186	202	220	235	253	274	300	331	363
Gross Profit	124	133	144	157	168	179	194	214	238	260
Gross Margin	71.8%	71.5%	71.4%	71.4%	71.3%	70.6%	70.8%	71.2%	71.9%	71.5%
SG&A Exp.	11	10	12	13	15	13	15	14	17	15
D&A Exp.	57	61	66	70	73	78	84	92	105	116
Operating Profit	57	61	67	74	79	88	95	109	117	128
Operating Margin	32.8%	32.9%	33.0%	33.7%	33.7%	34.6%	34.7%	36.1%	35.2%	35.3%
Net Profit	22	32	33	48	48	96	83	89	122	108
Net Margin	12.9%	17.4%	16.1%	21.8%	20.4%	37.7%	30.3%	29.5%	36.7%	29.9%
Free Cash Flow	87	92	110	116	130	139	155	165	196	196

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,287	1,354	1,473	1,576	1,662	1,826	1,953	2,132	2,546	2,721
Cash & Equivalents	0	1	0	0	0	1	0	0	0	0
Accounts Receivable	24	25	28	29	32	34	37	41	46	49
Goodwill & Int. Ass.	11	10	14	14	12	14	13	13	19	16
Total Liabilities	881	863	955	1,000	1,103	1,184	1,202	1,227	1,344	1,450
Long-Term Debt	833	814	894	933	1,035	1,116	1,129	1,121	1,208	1,316
Shareholder's Equity	403	486	514	571	555	638	749	903	1,201	1,270
D/E Ratio	2.07	1.67	1.74	1.63	1.87	1.75	1.51	1.24	1.01	1.04

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.8%	2.5%	2.3%	3.1%	3.0%	5.5%	4.4%	4.3%	5.2%	4.1%
Return on Equity	5.5%	7.3%	6.5%	8.8%	8.5%	16.0%	12.0%	10.7%	11.6%	8.8%
ROIC	1.9%	2.5%	2.4%	3.3%	3.1%	5.7%	4.6%	4.5%	5.5%	4.3%
Shares Out.	26.9	28.6	30.2	31.3	32.1	32.6	34.0	35.4	37.4	39.2
Revenue/Share	6.42	6.48	6.68	6.99	7.30	7.76	8.05	8.46	8.83	9.24
FCF/Share	3.21	3.20	3.63	3.70	4.04	4.26	4.55	4.64	5.22	5.00

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