EastGroup Properties, Inc. (EGP)

Updated February 8th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$172	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$7.48 B
Fair Value Price:	$158	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	03/30/2023[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	04/14/2023
Dividend Yield:	2.9%	**5 Year Price Target**	$226	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 99.0% leased to over 1550 tenants, with no tenant accounting for more than 2.1% of its total annualized base rent. EastGroup generates over $400 million in annual rental revenues and is headquartered in Ridgeland, Mississippi.

On February 7th, 2023, EastGroup reported its Q4 and full-year results for the period ending December 31st, 2022. For the quarter, revenues came in at $129.8 million, 20.9% higher year-over-year, again driven by increased leasing activity, growing rental rates, as well as the acquisition of 1.04 million square feet of value-add properties over the past year.

FFO of $79.3 million was up 19.7% compared to last year or 12.3% higher on a per-share basis to $1.82. The difference in growth rates is due to the additional shares issued to fund the recent acquisitions. To illustrate EastGroup's operational excellence, this marks 39 consecutive quarters of higher FFO/share as compared to the prior-year quarter, which is truly a long-term trend. For the year, FFO/share came in at $7.00, up 14.8% compared to fiscal 2021.

EastGroup continues to experience great demand for its industrial properties, recording average occupancy of 98.0% during the year, up from 97.1% in fiscal 2021. Powered by robust e-commerce and last-mile delivery trends combined with heavy supply chain issues, EastGroup's Sunbelt properties remain in high demand. Accordingly, management's initial guidance for fiscal 2023 came in optimistic, forecasting FFO/share between $7.30 and $7.50. We continue to apply the higher end of this range in our calculations due to the company's ever-customary tendency to beat its estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/shr	$3.23	$3.47	$3.67	$4.02	$4.25	$4.66	$4.98	$5.38	$6.09	$7.00	***$7.50***	***$10.77***
DPS	$2.14	$2.22	$2.34	$2.44	$2.52	$2.72	$2.94	$3.08	$3.58	$4.70	***$5.00***	***$7.52***
Shares[2]	30.2	31.3	32.1	32.6	34	35.4	37.4	39.1	40.3	42.6	***42.6***	***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 (~34% of rental income) and Florida (~24% of rental income), are likely to see strong rental growth ahead amid their overall net adds in populations and income-tax-free statuses. While rising interest rates could slow down the company's growth, we continue to forecast FFO/share growth of 7.5% in the medium-term based on the company's ongoing momentum. 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 dividend growth

[1] Estimated dividend dates based on past dividend dates

[2] Share count is in millions.

during the Great Recession, but the dividend has never been cut. We retain our dividend growth forecast at 8.5% through 2027, reflecting EastGroup's recently accelerated dividend hike and its relatively comfortable payout ratio.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	19.5	17.9	16.3	16.7	20.5	20.4	24.1	24.5	32.8	25.0	***22.9***	***21.0***
Avg. Yld.	3.4%	3.6%	3.9%	3.6%	2.9%	2.9%	2.5%	2.3%	1.8%	2.7%	***2.9%***	***3.3%***

EastGroup's valuation has historically hovered around 22 times its underlying FFO. This multiple expanded between 2019 and 2021. Despite the overall market sell-off lately as a result of a shaky macroeconomic environment and rising interest rates, EastGroup's valuation remains at an elevated ~23 times management's expected FFO. We retain EastGroup's fair multiple of 21 in the medium-term, which we feel better reflects the company's overall growth trajectory and market conditions. Therefore, we forecast a modest valuation headwind moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

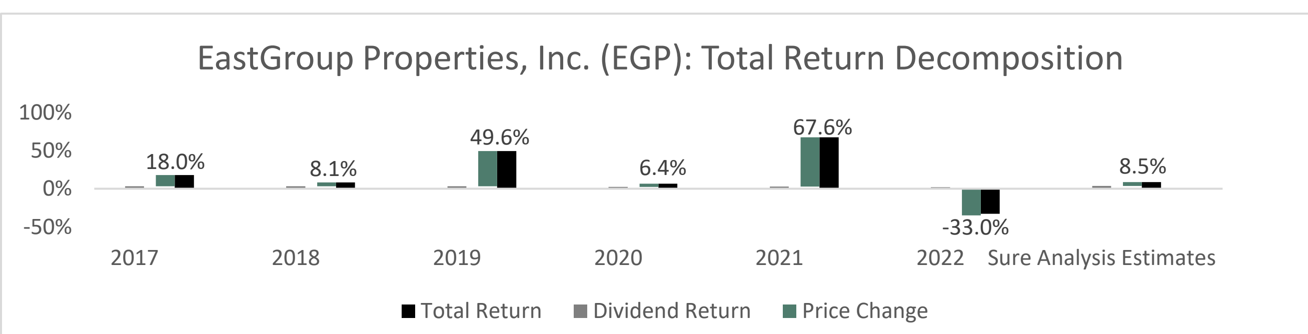
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66%	64%	64%	61%	59%	58%	59%	57%	59%	67%	***67%***	***70%***

We consider EastGroup's dividend very safe. Payouts are widely covered, and EastGroup's latest 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 relatively cheap financing, including average cost of debt of around 3.0%. Finally, cash flows are greatly diversified, with the top 10 tenants only accounting for 8.6% of the total annualized base rent. 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 has delivered excellent growth in its financials and capital returns over the past few years. As our estimates suggest, it is positioned to benefit from robust demand for its industrial properties, with its unique qualities set to lead to vigorous FFO/share and dividend growth. However, we believe that the stock remains slightly overpriced, despite its recent correction. This could prove to be a headwind on total shareholder return prospects. We forecast annualized returns of around 8.5% in the medium-term. Shares earn a hold rating at the moment.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	186	202	220	235	253	274	300	331	363	409
Gross Profit	133	144	157	168	179	194	214	238	260	294
Gross Margin	71.5%	71.4%	71.4%	71.3%	70.6%	70.8%	71.2%	71.9%	71.5%	71.9%
SG&A Exp.	10	12	13	15	13	15	14	17	15	16
D&A Exp.	61	66	70	73	78	84	92	105	116	127
Operating Profit	61	67	74	79	88	95	109	117	128	151
Operating Margin	32.9%	33.0%	33.7%	33.7%	34.6%	34.7%	36.1%	35.2%	35.3%	36.9%
Net Profit	32	33	48	48	96	83	89	122	108	158
Net Margin	17.4%	16.1%	21.8%	20.4%	37.7%	30.3%	29.5%	36.7%	29.9%	38.6%
Free Cash Flow	92	110	116	130	139	155	165	196	196	256

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,354	1,473	1,576	1,662	1,826	1,953	2,132	2,546	2,721	3,215
Cash & Equivalents	1	0	0	0	1	0	0	0	0	4
Accounts Receivable	25	28	29	32	34	37	41	46	49	59
Goodwill & Int. Ass.	10	14	14	12	14	13	13	19	16	20
Total Liabilities	863	955	1,000	1,103	1,184	1,202	1,227	1,344	1,450	1,644
Long-Term Debt	814	894	933	1,035	1,116	1,129	1,121	1,208	1,316	1,457
Shareholder's Equity	486	514	571	555	638	749	903	1,201	1,270	1,570
LTD/E Ratio	1.67	1.74	1.63	1.87	1.75	1.51	1.24	1.01	1.04	0.93

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.5%	2.3%	3.1%	3.0%	5.5%	4.4%	4.3%	5.2%	4.1%	5.3%
Return on Equity	7.3%	6.5%	8.8%	8.5%	16.0%	12.0%	10.7%	11.6%	8.8%	11.1%
ROIC	2.5%	2.4%	3.3%	3.1%	5.7%	4.6%	4.5%	5.5%	4.3%	5.6%
Shares Out.	28.6	30.2	31.3	32.1	32.6	34.0	35.4	37.4	39.2	40.4
Revenue/Share	6.48	6.68	6.99	7.30	7.76	8.05	8.46	8.83	9.24	10.14
FCF/Share	3.20	3.63	3.70	4.04	4.26	4.55	4.64	5.22	5.00	6.35

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