EastGroup Properties, Inc. (EGP)

Updated April 26th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$165	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$7.29 B
Fair Value Price:	$160	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/30/2023
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	04/14/2023
Dividend Yield:	3.0%	**5 Year Price Target**	$224	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**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. At the end of 2022, it owned 416 industrial properties and one office building in 11 states. The trust's property portfolio is currently 98.7% 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 April 25th, 2023, EastGroup reported its Q1 results for the period ending March 31st, 2023. For the quarter, revenues came in at $135.0 million, 19.5% higher year-over-year, again driven by increased leasing activity, growing rental rates, as well as several acquisitions over the past four quarters.

FFO of $80.8 million was up 16% compared to last year or 9.5% higher on a per-share basis to $1.84. 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 40 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 98.1% during the quarter, up from 97.3% in Q1 of 2022. Powered by robust e-commerce and last-mile delivery trends, EastGroup's Sunbelt properties remain in high demand. Accordingly, management's upgraded their guidance for fiscal 2023, forecasting FFO/share between $7.49 and $7.61 (up from $7.30 to $7.50 previously). We continue to apply the higher end of this range in our calculations due to the company's ever-customary tendency to beat/raise 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	***$7.61***	***$10.67***
DPS	$2.14	$2.22	$2.34	$2.44	$2.52	$2.72	$2.94	$3.08	$3.58	$4.70	***$5.00***	***$7.35***
Shares[1]	30.2	31.3	32.1	32.6	34	35.4	37.4	39.1	40.3	42.6	***43.8***	***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 forecast FFO/share growth of 7% 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 during

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[1] Share count is 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.

the Great Recession, but the dividend has never been cut. We have set our dividend growth estimate at 8% through 2028, 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	***21.7***	***21.0***
Avg. Yld.	3.4%	3.6%	3.9%	3.6%	2.9%	2.9%	2.5%	2.3%	1.8%	2.7%	***3.0%***	***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 near its historical average, at ~22 times management's expected FFO. We retain EastGroup's fair multiple of 21 in the medium-term, which we feel sufficiently reflects the company's overall growth trajectory and market conditions. Therefore, we forecast a soft valuation headwind moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

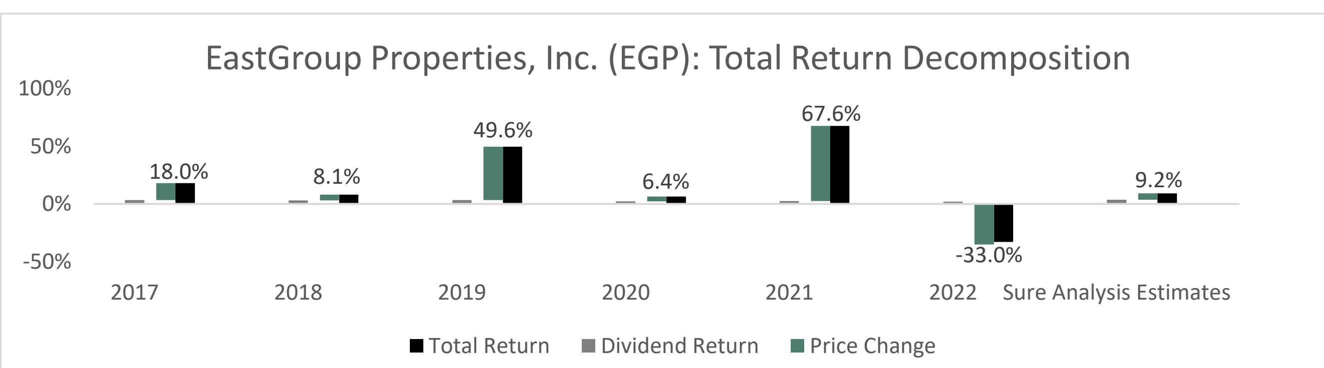
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66%	64%	64%	61%	59%	58%	59%	57%	59%	67%	***66%***	***69%***

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 3.8%. Finally, cash flows are greatly diversified, with EastGroup's top 10 tenants only accounting for 8.5% 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. This could prove to be a minor headwind on total shareholder return prospects. We forecast annualized returns of around 9.2% in the medium-term. Shares earn a hold rating at the moment.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	202	220	235	253	274	300	331	363	409	487
Gross Profit	144	157	168	179	194	214	238	260	294	353
Gross Margin	71.4%	71.4%	71.3%	70.6%	70.8%	71.2%	71.9%	71.5%	71.9%	72.5%
SG&A Exp.	12	13	15	13	15	14	17	15	16	17
D&A Exp.	66	70	73	78	84	92	105	116	127	154
Operating Profit	67	74	79	88	95	109	117	128	151	183
Operating Margin	33.0%	33.7%	33.7%	34.6%	34.7%	36.1%	35.2%	35.3%	36.9%	37.6%
Net Profit	33	48	48	96	83	89	122	108	158	186
Net Margin	16.1%	21.8%	20.4%	37.7%	30.3%	29.5%	36.7%	29.9%	38.6%	38.2%
Free Cash Flow	110	116	130	139	155	165	196	196	256	317

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,473	1,576	1,662	1,826	1,953	2,132	2,546	2,721	3,215	4,036
Cash & Equivalents	0	0	0	1	0	0	0	0	4	0
Accounts Receivable	28	29	32	34	37	41	46	49	59	71
Goodwill & Int. Ass.	14	14	12	14	13	13	19	16	20	22
Total Liabilities	955	1,000	1,103	1,184	1,202	1,227	1,344	1,450	1,644	2,082
Long-Term Debt	894	933	1,035	1,116	1,129	1,121	1,208	1,316	1,457	1,862
Shareholder's Equity	514	571	555	638	749	903	1,201	1,270	1,570	1,953
LTD/E Ratio	1.74	1.63	1.87	1.75	1.51	1.24	1.01	1.04	0.93	0.95

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.3%	3.1%	3.0%	5.5%	4.4%	4.3%	5.2%	4.1%	5.3%	5.1%
Return on Equity	6.5%	8.8%	8.5%	16.0%	12.0%	10.7%	11.6%	8.8%	11.1%	10.6%
ROIC	2.4%	3.3%	3.1%	5.7%	4.6%	4.5%	5.5%	4.3%	5.6%	5.5%
Shares Out.	30.2	31.3	32.1	32.6	34.0	35.4	37.4	39.2	40.4	42.7
Revenue/Share	6.68	6.99	7.30	7.76	8.05	8.46	8.83	9.24	10.14	11.40
FCF/Share	3.63	3.70	4.04	4.26	4.55	4.64	5.22	5.00	6.35	7.41

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