EastGroup Properties, Inc. (EGP)

Updated October 25th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$157	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$7.11 B
Fair Value Price:	$140	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/29/2023[1]
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	01/12/2024
Dividend Yield:	3.2%	**5 Year Price Target**	$196	**Years Of Dividend Growth:**	13
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 98.5% leased to over 1550 tenants, with no tenant accounting for more than 2.0% of its total annualized base rent. EastGroup generates over $400 million in annual rental revenues and is headquartered in Ridgeland, Mississippi.

On August 25th, 2023, EastGroup raised its dividend by 1.6% to a quarterly rate of $1.27.

On October 24th, 2023, EastGroup reported its Q3 results for the period ending September 30th, 2023. For the quarter, revenues came in at $146.5 million, 16.6% higher year-over-year, which were again driven by increased leasing activity, growing rental rates, as well as several acquisitions over the past four quarters.

FFO of $91.4 million was up 18.5% compared to last year or 13% higher on a per-share basis to $2.00. 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 42 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 97.7% during the quarter, but this was down 80bps compared to Q3 of 2022. Powered by robust e-commerce and last-mile delivery trends, EastGroup's Sunbelt properties remain in high demand. Accordingly, management upgraded their guidance for fiscal 2023, expecting FFO/share between $7.73 and $7.77 (up from $7.58 to $7.68 previously). We continue to apply the higher end of this range in our calculations due to EastGroup'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	***$7.77***	***$10.90***
DPS	$2.14	$2.22	$2.34	$2.44	$2.52	$2.72	$2.94	$3.08	$3.58	$4.70	***$5.08***	***$7.46***
Shares[2]	30.2	31.3	32.1	32.6	34.0	35.4	37.4	39.1	40.3	42.6	***46.7***	***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 (~25% 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.

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[1] Estimated 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 30 years. The REIT paused dividend growth during the Great Recession, but the dividend has never been cut. We have set our dividend growth estimate at 8% through 2028, despite EastGroup's most recent, relatively soft dividend hike. We expect dividend growth to re-accelerate once interest rates ease.

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	***20.2***	***18.0***
Avg. Yld.	3.4%	3.6%	3.9%	3.6%	2.9%	2.9%	2.5%	2.3%	1.8%	2.7%	***3.2%***	***3.8%***

EastGroup's valuation has historically hovered around 22 times its underlying FFO. In light of recent market volatility stemming from an uncertain macroeconomic climate and increasing interest rates, EastGroup's Price-to-FFO ratio currently falls below its historical average, standing at around 20 times as per management's projections. We anticipate a further decrease in EastGroup's fair multiple to 18 times due to the likelihood of sustained elevated interest rates for the foreseeable future. As a result, we expect a modest headwind in the company's valuation 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%	***65%***	***68%***

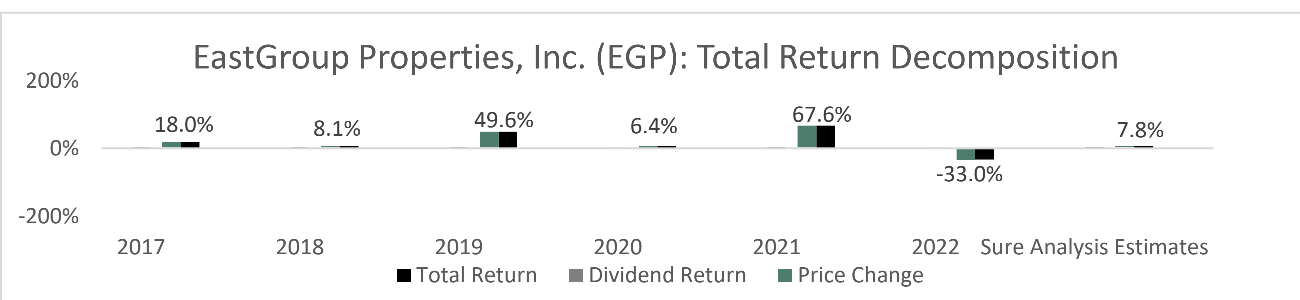
We consider EastGroup's dividend very safe. Payouts are widely covered, and EastGroup's latest bold DPS hike should further increase investors' confidence in that regard. The company showcases some of the highest quality characteristics amongst its peers. These include record occupancy rates, excellent rental growth prospects due to ideal demographics, and relatively cheap financing, including average cost of debt of around 3.37%.

Finally, cash flows are greatly diversified, with EastGroup's top 10 tenants only accounting for 8.2% 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. The company's results have remained very strong despite a shaky real estate environment, while its unique qualities are likely to lead to strong FFO/share and dividend growth moving forward. However, we believe that the stock remains overpriced in the current market environment. This could prove to be a headwind on total shareholder return prospects. We project annualized returns of around 7.8% in the medium-term. Shares continue to earn a hold rating.

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.