



EastGroup Properties, Inc. (EGP)

Updated February 8th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$183	5 Year CAGR Estimate:	5.9%	Market Cap:	\$8.47 B
Fair Value Price:	\$151	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	03/29/2024 ¹
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	04/12/2024
Dividend Yield:	2.8%	5 Year Price Target	\$211	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. As of its latest filings, it owned 487 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 1.8% of its total annualized base rent. EastGroup generates over \$570 million in annual rental revenues and is headquartered in Ridgeland, Mississippi.

On February 7th, 2024, EastGroup reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues came in at \$149.1 million, 15% higher year-over-year, which were again driven by increased leasing activity, growing rental rates, and several acquisitions over the past four quarters.

FFO of \$95.6 million was up 20.6% compared to last year or 11.5% higher on a per-share basis to \$2.13. 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 43 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, even though this was 30 bps below last year's average occupancy. For the year, FFO/share jumped to a new record of \$7.79.

Powered by robust e-commerce and last-mile delivery trends, EastGroup's Sunbelt properties remain in high demand. Accordingly, management introduced a rather optimistic guidance for fiscal 2024, expecting FFO/share between \$8.17 and \$8.37. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/shr	\$3.47	\$3.67	\$4.02	\$4.25	\$4.66	\$4.98	\$5.38	\$6.09	\$7.00	\$7.79	\$8.37	\$11.74
DPS	\$2.22	\$2.34	\$2.44	\$2.52	\$2.72	\$2.94	\$3.08	\$3.58	\$4.70	\$5.04	\$5.08	\$7.46
Shares²	31.3	32.1	32.6	34	35.4	37.4	39.1	40.3	42.6	45.2	45.2	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 (~35% of annualized base rent) and Florida (~25% of ABR), 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.

¹ Estimated dates based on past dividend dates.

² 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.



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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 2029, despite EastGroup's most recent, relatively soft dividend hike. We expect dividend growth to re-accelerate once interest rates ease.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	17.9	16.3	16.7	20.5	20.4	24.1	24.5	32.8	25.0	20.7	21.9	18.0
Avg. Yld.	3.6%	3.9%	3.6%	2.9%	2.9%	2.5%	2.3%	1.8%	2.7%	3.1%	2.8%	3.5%

Despite current challenges from elevated interest rates affecting EastGroup, its forward Price-to-FFO ratio now stands at 21.9, in line with its historical average of 22. We attribute this resilience to the company's properties driving growth in suboptimal market conditions. However, due to seeking a higher yield and a wider margin of safety, we've maintained the stock's fair multiple at 18 times, anticipating a modest headwind in its valuation moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64%	64%	61%	59%	58%	59%	57%	59%	67%	65%	61%	64%

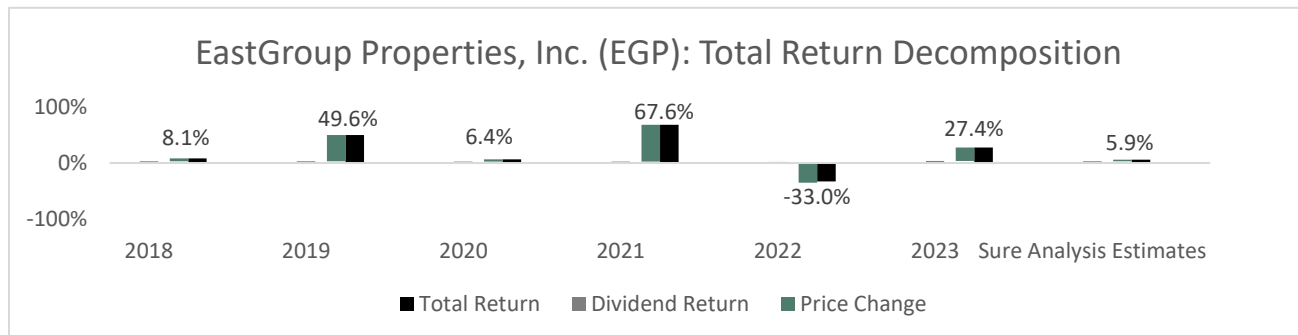
We consider EastGroup's dividend very safe. Payouts are widely covered, and EastGroup's latest bold DPS hike should further increase investors' confidence in that regard. The company showcases some of the highest quality characteristics amongst its peers. These include record occupancy rates, excellent 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 accounting for 7.9% 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 competitive 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 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 even in the face of elevated interest rates, while its unique qualities are likely to lead to strong FFO/share and dividend growth moving forward. However, we view the stock as modestly overpriced in the current market environment. This could prove to be a headwind on total shareholder return prospects. We project annualized returns of around 5.9% 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.

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