# EastGroup Properties, Inc. (EGP)

*Updated October 24th, 2024 by Nikolaos Sismanis*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $181 | **5 Year CAGR Estimate:** | 6.3% | **Market Cap:** | $8.83 B |
| **Fair Value Price:** | $150 | **5 Year Growth Estimate:** | 7.0% | **Ex-Dividend Date:** | 12/27/2024[1] |
| **% Fair Value:** | 121% | **5 Year Valuation Multiple Estimate:** | -3.7% | **Dividend Payment Date:** | 01/13/2025 |
| **Dividend Yield:** | 3.1% | **5 Year Price Target** | $211 | **Years Of Dividend Growth:** | 14 |
| **Dividend Risk Score:** | F | **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. As of its latest filings, it owned just under 500 industrial properties and one office building in 11 states. The trust's property portfolio is currently 98% leased to over 1,550 tenants, with none accounting for more than 1.7% of its total annualized base rent. EastGroup generates over $570 million in annual rental revenues and is headquartered in Ridgeland, Mississippi.

On August 23rd, 2024, EastGroup hiked its dividend by 10.2% to a quarterly rate of $1.40.

On October 23rd, 2024, EastGroup reported its Q3 results for the period ending September 24th, 2024. For the quarter, revenues came in at almost $162.9 million, 11.2% 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 $104.1 million was up 13.9% compared to last year or 6.5% 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 46 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, posting an average occupancy of 96.7% for its operating portfolio during the quarter, even though this was 100 bps below last year's figure.

Due to solid e-commerce and last-mile delivery trends, the REIT's Sunbelt properties are in high demand. Management revised its guidance somewhat downwards for fiscal 2024, expecting FFO/share between $8.33 and $8.37 (up from $8.28 to $8.38 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 | 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 | ***$8.35*** | ***$11.71*** |
| **DPS** | $2.22 | $2.34 | $2.44 | $2.52 | $2.72 | $2.94 | $3.08 | $3.58 | $4.70 | $5.04 | ***$5.60*** | ***$8.23*** |
| **Shares[2]** | 31.3 | 32.1 | 32.6 | 34 | 35.4 | 37.4 | 39.1 | 40.3 | 42.6 | 45.2 | ***49.0*** | ***55.0*** |

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.*

# EastGroup Properties, Inc. (EGP)

*Updated October 24th, 2024 by Nikolaos Sismanis*

EastGroup also features one of the most impressive dividend growth track records amongst its industry peers, having hiked its dividend in 27 of the last 31 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 | ***21.7*** | ***18.0*** |
| **Avg. Yld.** | 3.6% | 3.9% | 3.6% | 2.9% | 2.9% | 2.5% | 2.3% | 1.8% | 2.7% | 3.1% | ***3.1%*** | ***3.9%*** |

Despite current challenges from elevated interest rates affecting EastGroup, its forward price-to-FFO ratio now stands at 21.7, not too far from its historical average of about 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 soft 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% | ***67%*** | ***70%*** |

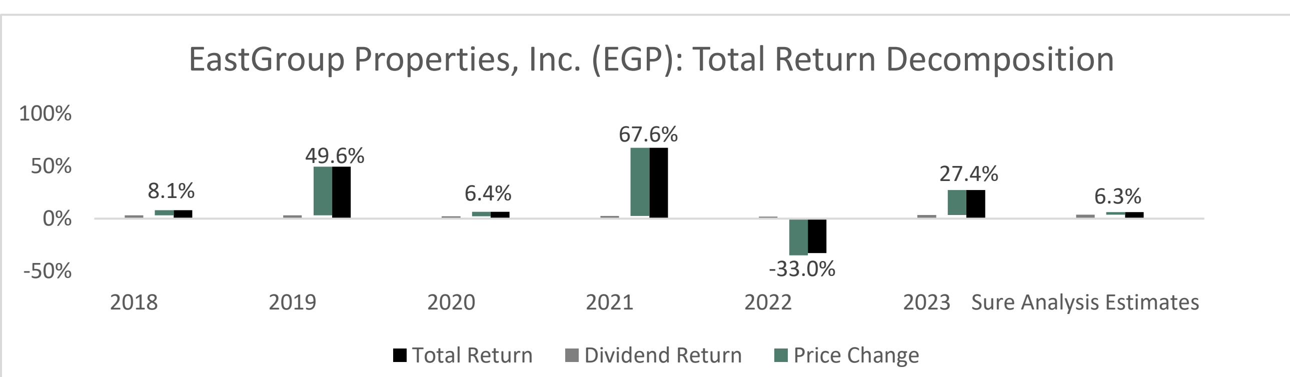
We consider EastGroup's dividend very safe. Payouts are widely covered, and EastGroup's latest bold DPS hike should further increase investors' confidence in that regard. The company showcases some of the highest quality characteristics amongst its peers. These include record occupancy rates, excellent rental growth prospects due to ideal demographics, and relatively cheap financing, including average cost of debt of around 3.35%.

Finally, cash flows are greatly diversified, with EastGroup's top 10 tenants accounting for 7.5% 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 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 slightly overpriced in the current market environment. This could prove to be a headwind on total shareholder return prospects. We project annualized returns of 6.3% in the medium-term. Shares continue to earn a hold rating.

## Total Return Breakdown by Year




*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.*

# EastGroup Properties, Inc. (EGP)

*Updated October 24th, 2024 by Nikolaos Sismanis*

## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 220 | 235 | 253 | 274 | 300 | 331 | 363 | 409 | 487 | 571 |
| Gross Profit | 157 | 168 | 179 | 194 | 214 | 238 | 260 | 294 | 353 | 417 |
| Gross Margin | 71.4% | 71.3% | 70.6% | 70.8% | 71.2% | 71.9% | 71.5% | 71.9% | 72.5% | 73.0% |
| SG&A Exp. | 13 | 15 | 13 | 15 | 14 | 17 | 15 | 16 | 17 | 17 |
| D&A Exp. | 70 | 73 | 78 | 84 | 92 | 105 | 116 | 127 | 154 | 171 |
| Operating Profit | 74 | 79 | 88 | 95 | 109 | 117 | 128 | 151 | 183 | 228 |
| Operating Margin | 33.7% | 33.7% | 34.6% | 34.7% | 36.1% | 35.2% | 35.3% | 36.9% | 37.6% | 39.9% |
| Net Profit | 48 | 48 | 96 | 83 | 89 | 122 | 108 | 158 | 186 | 200 |
| Net Margin | 21.8% | 20.4% | 37.7% | 30.3% | 29.5% | 36.7% | 29.9% | 38.6% | 38.2% | 35.0% |
| Free Cash Flow | 116 | 130 | 139 | 155 | 165 | 196 | 196 | 256 | 317 | 338 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 1,576 | 1,662 | 1,826 | 1,953 | 2,132 | 2,546 | 2,721 | 3,215 | 4,036 | 4,519 |
| Cash & Equivalents | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 4 | 0 | 40 |
| Accounts Receivable | 29 | 32 | 34 | 37 | 41 | 46 | 49 | 59 | 71 | 82 |
| Goodwill & Int. Ass. | 14 | 12 | 14 | 13 | 13 | 19 | 16 | 20 | 22 | 21 |
| Total Liabilities | 1,000 | 1,103 | 1,184 | 1,202 | 1,227 | 1,344 | 1,450 | 1,644 | 2,082 | 1,911 |
| Long-Term Debt | 933 | 1,035 | 1,116 | 1,129 | 1,121 | 1,208 | 1,316 | 1,457 | 1,862 | 1,675 |
| Shareholder's Equity | 571 | 555 | 638 | 749 | 903 | 1,201 | 1,270 | 1,570 | 1,953 | 2,608 |
| LTD/E Ratio | 1.63 | 1.87 | 1.75 | 1.51 | 1.24 | 1.01 | 1.04 | 0.93 | 0.95 | 0.64 |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 3.1% | 3.0% | 5.5% | 4.4% | 4.3% | 5.2% | 4.1% | 5.3% | 5.1% | 4.7% |
| Return on Equity | 8.8% | 8.5% | 16.0% | 12.0% | 10.7% | 11.6% | 8.8% | 11.1% | 10.6% | 8.8% |
| ROIC | 3.3% | 3.1% | 5.7% | 4.6% | 4.5% | 5.5% | 4.3% | 5.6% | 5.5% | 5.0% |
| Shares Out. | 31.3 | 32.1 | 32.6 | 34.0 | 35.4 | 37.4 | 39.2 | 40.4 | 42.7 | 45.3 |
| Revenue/Share | 6.99 | 7.30 | 7.76 | 8.05 | 8.46 | 8.83 | 9.24 | 10.14 | 11.40 | 12.59 |
| FCF/Share | 3.70 | 4.04 | 4.26 | 4.55 | 4.64 | 5.22 | 5.00 | 6.35 | 7.41 | 7.46 |

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