

CBRE Group Inc. (CBRE)

\$64.03 (As of 02/07/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/26/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of CBRE Group have outperformed its industry in the past six months. The company is anticipated to ride high, backed by its extensive real estate products and service offerings, improving leasing and outsourcing business, transformational deals and a healthy balance sheet. Strategic reinvestment in its business, specifically on the digital and technology front, will likely differentiate CBRE Group from its peers. Moreover, to strengthen its occupier advisory offering, in January, the company announced the acquisition of telecommunications and network infrastructure advisory services firm, New England Fiber, Inc. (NEF). Also, its performance in recent quarters indicated strength in global occupier outsourcing. Yet, uneasiness in some economies and cautious approach of investors remains woes and likely to mute any robust growth tempo.

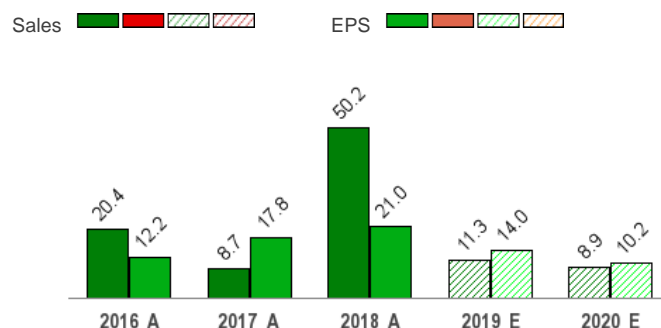
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.61 - \$45.16
20 Day Average Volume (sh)	1,126,005
Market Cap	\$21.4 B
YTD Price Change	4.5%
Beta	1.69
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Real Estate - Operations
Zacks Industry Rank	Bottom 39% (156 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	-3.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	5,661 E	6,348 E	6,547 E	7,585 E	25,845 E
2019	5,136 A	5,714 A	5,925 A	6,967 E	23,742 E
2018	4,674 A	5,111 A	5,261 A	6,294 A	21,340 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.75 E	\$0.95 E	\$1.01 E	\$1.49 E	\$4.12 E
2019	\$0.79 A	\$0.81 A	\$0.79 A	\$1.34 E	\$3.74 E
2018	\$0.54 A	\$0.74 A	\$0.79 A	\$1.21 A	\$3.28 A

*Quarterly figures may not add up to annual.

P/E TTM	17.8
P/E F1	15.5
PEG F1	1.4
P/S TTM	0.9

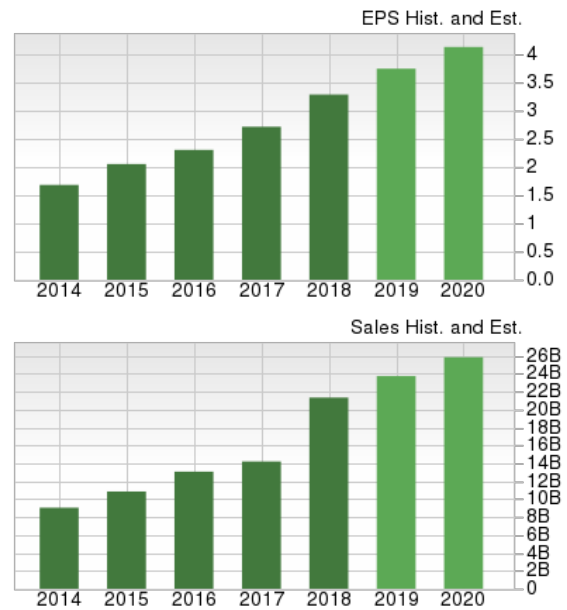
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

Overview

Headquartered in Los Angeles, CBRE Group, Inc., is a commercial real estate services and investment firm, offering a wide range of services to tenants, owners, lenders and investors in office, retail, industrial, multi-family and other types of commercial real estates in all major metropolitan areas across the globe. The services include valuation, real estate investment management, commercial property and corporate facilities management, tenant representation, occupier and property/agency leasing, property sales, commercial mortgage origination and servicing, capital markets (equity and debt) solutions, development services and proprietary research.

CBRE Group's new organizational structure became effective on Jan 1, 2019. Under the new structure, the company reported on three global business segments: Advisory Services, Global Workplace Solutions and Real Estate Investments.

Advisory Services offers a broad range of services globally. This includes property leasing, property sales, mortgage services, valuation, property management and project management. Global Workplace Solutions provides an extensive set of integrated, contractually-based services to occupiers of real estate, including facilities management, project management, transaction management and management consulting. Real estate investments comprises investment management services offered globally, development services in the United States and a new service designed for helping institutional property owners address the demand for flexible office space solutions.



Reasons To Buy:

- ▲ CBRE Group has a broad range of real estate products and services, and an extensive knowledge of domestic and international real estate markets. The company's adjusted earnings per share grew 20% in 2018, denoting the ninth consecutive year of double-digit adjusted earnings per share growth. The company's market leading position is likely to give it a competitive edge in capitalizing on the commercial real estate industry tailwinds. As the largest commercial real estate services and investment firm (based on 2018 revenues), the company enjoys a robust scale. It is among a few companies offering a full suite of services to multinational clients. Moreover, the company has grown organically and banked on strategic in-fill acquisitions to boost its service offerings and geographic reach. With an expanded capability to service, the company's number of large clients has increased significantly over the past years. As large corporations continue to seek consolidation of the number of service providers, CBRE Group is expected to remain a beneficiary of this trend.
- ▲ CBRE Group's extensive real estate products and services offerings, healthy leasing and outsourcing business, strategic buyouts, investments in people and solid balance sheet are expected to drive its performance.
- ▲ CBRE Group has made concerted efforts to diversify its revenue base over the past years. The company has opted for a better-balanced and more resilient business model and in pursuit of this has shifted the revenue mix toward more contractual sources and leasing. Contractual revenues and leasing, largely recurring over time, constituted 75% of total fee revenues in third-quarter 2019 compared with the 61% recorded in 2006. This makes the company resilient to market disruptions and positions it well to achieve both top and bottom-line growth even amid capital market headwinds.
- ▲ The company's solid technology platform helps it to develop and deliver superior analytical, research and client service tools to meet diverse client needs. In fact, strategic reinvestment in its business, specifically on the technology front, is expected to differentiate CBRE Group from its peers. The company is spending millions, besides opting for the acquisition of technology solution providers in the commercial real estate market. Moreover, CBRE Group has gained from its cost-cutting efforts and benefited from operational efficiencies in the past quarters. These efforts are likely to help CBRE Group gain market share going forward.
- ▲ Further, the company's Global Workplace Solutions segment, which provides a broad suite of integrated, contractually-based services to occupiers of real estate, including facilities management, project management, transaction management and management consulting, is well poised to grow. Occupiers of real estate are increasingly opting for outsourcing and depending on the expertise of third-party real estate specialists to achieve improvement in execution and efficiency. As a result, CBRE Group is witnessing continued momentum from both new and existing customers.
- ▲ CBRE Group has banked on strategic in-fill acquisitions to widen its geographic coverage, as well as expand and reinforce service offerings. The company focuses on acquiring regional or specialty firms which complement its existing platform as well as independent affiliates in which, at times, it holds small stakes. Furthermore, the company opts for larger, transformational deals driven by macro policies. During the first nine months of 2019, the company acquired assets of an advanced analytics software company based in the U.K., which provides technology and consulting services for large global data-center operators, a commercial and residential real estate appraisal firm headquartered in Florida, the company's former affiliate in Omaha and a project management firm in Australia. Moreover, in October, the company acquired a small valuation and consulting business in Switzerland as well as a leading project management firm in Israel. Moreover, during 2018, the company acquired a retail leasing and property management firm in Australia, two firms in Israel (the company's former affiliate and a majority stake in a local facilities management provider) and a commercial real estate services provider in San Antonio. Further, the company acquired a provider of real estate and facilities consulting services to healthcare companies across the United States and the residual 50% equity stake in the company's longstanding New England joint venture. These opportunistic acquisitions and strategic investments will likely serve as growth drivers, supplementing its organic growth.
- ▲ The company enjoys liquidity of around \$3.2 billion as of Sep 30, 2019, and has a low leverage level. This adequate liquidity and cash flow offer the company a solid platform for growth. Balance sheet is robust, with net leverage of about 0.65 terms of adjusted EBITDA at the end of the third quarter. The company's solid business momentum, credit profile and growth in recurring revenues are likely to ensure steady cash flow in the upcoming period.
- ▲ Shares of CBRE Group have outperformed its industry over the past six months. Its shares have gained 21.9% compared with the industry's rally of 14.7% during the same time period. Given the improvement on fundamentals, there is decent upside potential to the stock.

Reasons To Sell:

- ▼ Investment volumes are expected to remain soft following a record 2018 as investors adopt a cautious approach. Furthermore, trade tensions, political uncertainties and volatile equity markets are anticipated to add to the woes, affecting transaction levels. In addition, though leasing demand is expected to remain robust in the rest of the year, the pace of growth is likely to be slower than the record year-ago levels.
- ▼ CBRE Group faces stiff competition from international, regional and local players in the market. Some of these firms enjoy greater financial resources than the company. Also, some of them are larger on a regional or local basis, or have a stronger position in a specific market segment or service offering. This affects the company's ability to do business and crack deals on favorable terms.
- ▼ Given its international presence, the company often faces an unfavorable foreign currency movement and uneasiness in some economies, which impact its top-line growth. In fact, global economy is expected to grow at a moderately slower pace this year.

Competition from international, regional and local players, its exposure to unfavorable foreign currency movements and uneasiness in certain global economies are concerns before CBRE.

Last Earnings Report

CBRE Group's Q3 Earnings and Revenues Top Estimate

CBRE Group reported third-quarter 2019 adjusted earnings per share of 79 cents, beating the Zacks Consensus Estimate of 78 cents. Notably, the figure remained flat year over year. Results indicate strong revenue growth in the quarter. Particularly, global occupier outsourcing, U.S. property sales and commercial mortgage origination business lines were strong, though a light quarter of development asset sales partly muted the growth tempo.

The company generated revenues of around \$5.9 billion, outpacing the Zacks Consensus Estimate of \$5.7 billion. The revenue figure also compares favorably with the year-ago quarter's reported tally of around \$5.3 billion. Moreover, fee revenues were up 11% (12.8% in local currency), year over year, to \$2.9 billion. However, adjusted EBITDA was edged down 1.9% (1% local currency) to \$455 million.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	3.36%
EPS Surprise	1.28%
Quarterly EPS	0.79
Annual EPS (TTM)	3.60

Quarter in Detail

The company's Advisory Services segment registered year-over-year revenue growth of 8.8% (10.2% local currency) to \$2.2 billion. Global capital market revenues, which comprise both advisory property sales and commercial mortgage origination, were up 11% (13% local currency). This upswing was aided by solid growth in commercial mortgage origination revenues. Moreover, advisory property sales revenues registered an 8% (9% local currency) growth.

Advisory leasing revenues improved 4% (5% local currency). This upswing resulted from strong leasing in Australia, Brazil, India, Poland and the U.K. Moreover, leasing improved 4% in the United States.

Property and advisory project management revenues and fee revenues climbed 12% (14% local currency) and 6% (8% local currency), respectively.

Furthermore, Global Workplace Solutions segment registered an increase of 15.3% (17.5% local currency) in revenues to \$3.5 billion. Strength across facilities management, project management and transactions business stoked growth.

The Real Estate Investments segment recorded 8.8% (11.6% local currency) growth in revenues. However, adjusted EBITDA tanked 83.5% (82.7% local currency), mainly due to the timing of large asset sales in the development business, which was particularly strong in third-quarter 2018, as well as higher investment in the company's flexible workspace offering.

In-process development portfolio increased to \$10.9 billion, up \$0.3 billion from second-quarter 2019. There was a \$1-billion increase in the pipeline during the third quarter to \$3.5 billion. This indicates the fee development and built-to-suit projects.

Liquidity

CBRE Group exited third-quarter 2019 with cash and cash equivalents of around \$577.5 million, down from \$777.2 million as of Dec 31, 2018.

Outlook

CBRE Group maintained its 2019 earnings guidance. The company projects adjusted earnings per share for the ongoing year in the band of \$3.70-\$3.80. This indicates an increase of 14% from the 2018 adjusted earnings per share at the mid-point.

Recent News

CBRE Group Buys New England Fiber, Boosts Occupier Advisory Offering - Jan 6, 2020

In an effort to strengthen its occupier advisory offering, CBRE Group recently announced the acquisition of telecommunications and network infrastructure advisory services firm — New England Fiber, Inc. (NEF). The move gives the technical expertise to CBRE Group to advise clients on network capabilities.

Notably, NEF, founded in 2004 in Newton, MA, specializes in helping occupiers optimize network deployment, offering solutions spanning network design, procurement and installation management. Large and mid-sized enterprises in multiple industries and vertical markets are being served by NEF.

CBRE Group Picked as Global Real Estate Service Provider for Novartis - Oct 29, 2019

CBRE Group announced that the company has been appointed as exclusive provider of global real estate services for global pharmaceutical company Novartis International AG. The company will help Novartis in the transformation of its real estate portfolio, and aid in enhancing its employee workplace experience and its sustainability plan.

Particularly, CBRE's Global Workplace Solutions and Advisory & Transaction Services teams will be responsible for delivering a full set of real estate and facilities services to Novartis' 70-million-square-foot portfolio. This portfolio spans more than 90 countries and several property types, including office, laboratory, manufacturing and research facilities.

CBRE Taps UK's Rising Renting Demand With Telford Homes Buyout – Oct 1, 2019

CBRE Group wrapped up the acquisition of Telford Homes Plc — a developer of multi-family residential properties in London. The acquisition, announced this July, will help the company capitalize on the thriving market for rental housing in the U.K.

Telford is focused on development of middle-market build-to-rent properties in London. The company will now operate as part of Trammell Crow Company, which is a wholly-owned real estate development subsidiary of CBRE Group. Telford will continue to be led by Jon Di-Stefano, chief executive officer of Telford Homes.

The move is a strategic fit for CBRE Group owing to the shifting inclination from home ownership to renting amid increased affordability relative to for-sale housing properties and limited supply. This is fueling the rental housing market's growth in Britain, which is in its nascent stage compared with the renter-housing market in the United States that has flourished over the decades.

Therefore, this acquisition will enable CBRE to expand its highly successful Trammell Crow Company real estate development business in the U.K. market. Notably, Trammell Crow Company has garnered reputation in development and investment of commercial real estate. The company had \$10.6 billion of projects in process and another \$2.5 billion in its pipeline, as of Jun 30, 2019.

Bob Sulentic, president and CEO of CBRE stated, "The UK is in the early stages of a secular shift toward institutionally owned urban rental housing and Telford Homes' talented team positions us to lead this trend."

CBRE Buys Omaha Affiliate, Strengthens Foothold in Midwest – Jul 8, 2019

CBRE Group announced that it has acquired longtime affiliate, CBRE | MEGA, operating in the greater Omaha, NE area. Notably, CBRE | MEGA is one of the largest full service commercial real estate services firms in the city, and has more than 100 client-service professionals who offer sales, leasing and project management services.

The firm manages a portfolio of more than 5.5 million square feet of space and has been an affiliate of CBRE Group since 2000. Per management, the acquisition will strengthen the company's existing presence in the Midwest. Further, it believes that through this collaboration, the company can leverage on the affiliate's broad-ranging expertise, thereby delivering impressive results for its clients.

Management also noted that the affiliate's clients will benefit from CBRE Group's broad range of services, global footprint and deep pockets of funds, including ongoing technology investments.

In a different press release, it was announced that CBRE has been chosen to provide facilities and project management and related services to the Province of British Columbia's real estate portfolio spanning 17 million square feet of space.

The portfolio is managed through the Province's Ministry of Citizens' Services and contains a mix of owned, leased and managed assets, like offices, corrections centers, courthouses and warehouses.

Valuation

CBRE Group's shares have been up 37% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 23.1% and 10.3%, over the past year.

The S&P 500 Index has been up 21.9% over the trailing 12-month period.

The stock is currently trading at 15.38X forward 12-month earnings, which compares to 19.69X for the Zacks sub-industry, 14.87X for the Zacks sector and 19.12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.60X and as low as 9.93X, with a 5-year median of 14.16X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$68 price target reflects 16.33X earnings.

The table below shows summary valuation data for CBRE.

Valuation Multiples - CBRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	15.38	19.69	14.87	19.12
	5-Year High	19.6	23.11	16.21	19.34
	5-Year Low	9.93	14.03	12.01	15.18
	5-Year Median	14.16	19.6	14.15	17.47
P/S F12M	Current	0.82	2.58	6.55	3.53
	5-Year High	1.3	3.86	6.65	3.53
	5-Year Low	0.58	2.25	5.39	2.54
	5-Year Median	0.78	2.83	6.04	3
P/B TTM	Current	3.86	0.56	2.83	4.29
	5-Year High	5.62	0.88	2.89	4.42
	5-Year Low	2.58	0.44	1.83	2.85
	5-Year Median	3.5	0.6	2.51	3.62

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (156 out of 254)



Top Peers

Colliers International Group Inc. (CIGI)	Neutral
Cushman & Wakefield PLC (CWK)	Neutral
FirstService Corporation (FSV)	Neutral
Jones Lang LaSalle Incorporated (JLL)	Neutral
Marcus & Millichap, Inc. (MMI)	Neutral
Newmark Group, Inc. (NMRK)	Neutral
The RMR Group Inc. (RMR)	Neutral
Walker & Dunlop, Inc. (WD)	Neutral

Industry Comparison Industry: Real Estate - Operations				Industry Peers		
	CBRE Neutral	X Industry	S&P 500	CIGI Neutral	CWK Neutral	JLL Neutral
VGM Score	B	-	-	A	C	B
Market Cap	21.43 B	697.17 M	24.00 B	3.21 B	4.29 B	8.90 B
# of Analysts	4	3	13	2	3	4
Dividend Yield	0.00%	0.00%	1.78%	0.12%	0.00%	0.50%
Value Score	B	-	-	C	C	B
Cash/Price	0.03	0.13	0.04	0.03	0.09	0.05
EV/EBITDA	11.92	11.21	14.07	14.00	21.78	11.21
PEG Ratio	1.42	1.90	2.04	NA	1.11	NA
Price/Book (P/B)	3.86	1.56	3.28	7.24	3.44	1.83
Price/Cash Flow (P/CF)	13.55	10.57	13.58	17.91	34.93	10.14
P/E (F1)	15.58	15.57	18.86	16.76	11.05	12.65
Price/Sales (P/S)	0.93	3.09	2.65	1.07	0.50	0.51
Earnings Yield	6.43%	5.85%	5.30%	5.96%	9.05%	7.91%
Debt/Equity	0.50	0.38	0.71	1.81	2.51	0.49
Cash Flow (\$/share)	4.73	1.05	6.89	4.66	0.56	17.03
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	17.61%	10.76%	10.80%	5.78%	NA	6.81%
Proj. EPS Growth (F1/F0)	10.30%	10.81%	7.23%	9.58%	9.26%	3.70%
Curr. Cash Flow Growth	20.09%	10.42%	9.51%	2.84%	77.36%	26.95%
Hist. Cash Flow Growth (3-5 yrs)	14.97%	8.43%	8.55%	12.83%	NA	14.62%
Current Ratio	1.17	1.80	1.20	0.84	1.18	2.05
Debt/Capital	33.40%	32.88%	42.90%	71.61%	71.48%	32.88%
Net Margin	4.50%	5.95%	11.76%	3.58%	-0.24%	2.64%
Return on Equity	23.24%	4.17%	16.98%	25.57%	-1.60%	15.64%
Sales/Assets	1.59	0.19	0.54	1.22	1.28	1.58
Proj. Sales Growth (F1/F0)	8.86%	5.48%	4.15%	7.78%	4.81%	6.98%
Momentum Score	D	-	-	C	D	C
Daily Price Chg	0.23%	0.00%	-0.64%	-1.50%	0.05%	-0.16%
1 Week Price Chg	0.46%	-0.27%	-2.60%	-0.44%	-1.74%	0.21%
4 Week Price Chg	5.73%	0.00%	0.72%	5.21%	0.36%	0.40%
12 Week Price Chg	15.22%	2.95%	4.69%	17.80%	2.95%	6.66%
52 Week Price Chg	38.71%	8.60%	16.01%	30.09%	12.41%	19.20%
20 Day Average Volume	1,126,005	7,436	1,961,054	45,633	425,203	239,153
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.00%	0.00%	0.00%	-0.09%
(F1) EPS Est 12 week change	-0.34%	0.00%	-0.16%	0.00%	-2.23%	1.46%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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