Aug 11, 2020

CBRE Group Inc. (CBRE)

$45.37 (As of 08/10/20)

Price Target (6-12 Months): **$48.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/17/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: B | Momentum: F	

Summary

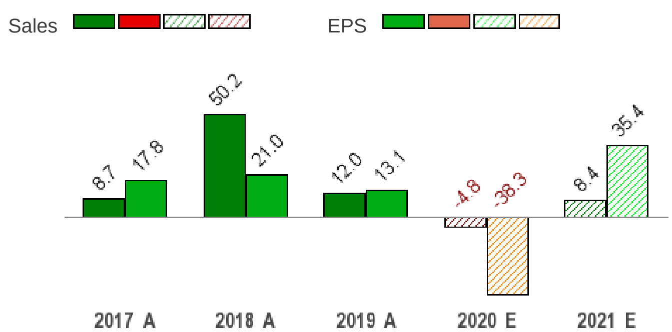
CBRE Group's better-than-expected second-quarter 2020 performance amid the coronavirus mayhem was supported by the continued expansion of its contractual businesses over the past decade. The Global Workplace Solutions segment's business has been resilient and continues to benefit from occupier clients' increasing reliance on the company for achieving efficiencies and navigate through present challenging times. It also has a solid balance sheet, and has gained from its buyouts and technology investments. Yet, the macroeconomic uncertainties and adverse impact on commercial real estate transactions are concerning. Its advisory leasing revenues and global property sales plunged amid the pandemic and these businesses are likely to remain choppy in the near term. Its shares too have underperformed the industry over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$64.75 - $29.17**
20 Day Average Volume (sh)	**1,861,452**
Market Cap	**$15.2 B**
YTD Price Change	**-26.0%**
Beta	**1.68**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Real Estate - Operations**
Zacks Industry Rank	**Bottom 36% (163 out of 253)**
Last EPS Surprise	**16.7%**
Last Sales Surprise	**5.3%**
EPS F1 Est- 4 week change	**-9.9%**
Expected Report Date	**11/04/2020**
Earnings ESP	**-0.9%**
P/E TTM	**14.1**
P/E F1	**19.8**
PEG F1	**1.8**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	5,940 E	5,911 E	6,494 E	7,733 E	24,664 E
2020	5,889 A	5,381 A	5,388 E	6,458 E	22,756 E
2019	5,136 A	5,714 A	5,925 A	7,119 A	23,894 A

EPS Estimates

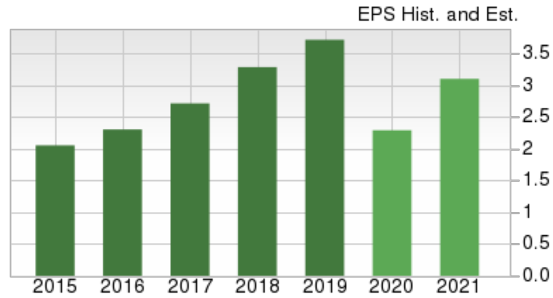
	Q1	Q2	Q3	Q4	Annual*
2021	$0.74 E	$0.65 E	$0.80 E	$1.29 E	$3.10 E
2020	$0.75 A	$0.35 A	$0.45 E	$0.80 E	$2.29 E
2019	$0.79 A	$0.81 A	$0.79 A	$1.32 A	$3.71 A

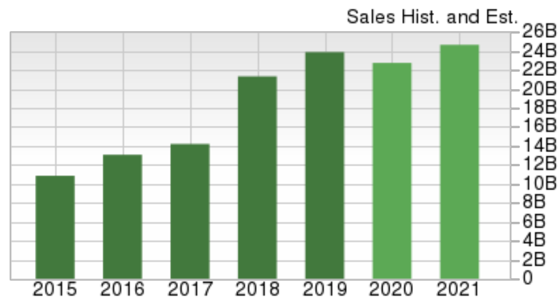
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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's wide real estate products and services offerings, healthy outsourcing business, strategic buyouts, technology investments and solid balance sheet are expected to drive performance.

- CBRE Group has a broad range of real estate products and services, and an extensive knowledge of domestic and international real estate markets. The year 2019 marked the company's 10th 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 navigating through the current challenges and capitalize on compelling opportunities. As the largest commercial real estate services and investment firm (based on 2019 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 has opted for a better-balanced and more resilient business model and in pursuit of this the company has shifted toward more diversified and contractual revenue base over the past years. Contractual revenues and leasing, largely recurring over time, constituted 72% of total fee revenues in fourth-quarter 2019. This makes the company relatively resilient to market disruptions and positions it well to achieve both top and bottom-line growth even amid capital market headwinds. The company's continued expansion of its contractual businesses over the past decade supported its second-quarter 2020 performance despite the coronavirus mayhem.

- 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 has been 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. Also, a considerable part of costs of sales in the Advisory business is variable in nature. To temporarily lower costs within its transactional business, the company has resorted to furloughs and reduced work schedules as well as some job eliminations. These efforts are likely to support margins in this adverse situation.

- 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 have been 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 has been witnessing continued momentum from both new and existing customers. Moreover, high-quality client base is bumping up contractual revenues. Also, GWS serves clients across a wide array of property types and industries, including many deemed essential during the current crisis. Demand remains solid from technology and transportation/logistics and life-sciences industries. In addition, with occupiers seeking guidance to navigate uncertain environment and drive critical cost efficiencies, the segment's services are in demand. The company also sustained a high contract renewal rate in the quarter. Amid these, management expects GWS segment's gross revenues to rise in the mid-single-digit and fee revenues in the mid- to high single-digits with growth in contractual facilities, management revenues offsetting an expected decline in GWS transaction revenues. Moreover, due to disciplined cost management, the company expects to achieve modest margin expansion, which will likely drive high single-digit adjusted EBITDA growth.

- 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. In July 2020, the company acquired a firm specializing in performing real estate valuations in South Korea. Moreover, in first-quarter 2020, the company acquired leading local facilities management firms in Spain and Italy, a U.S. firm that helps companies reduce telecommunications costs and a leading provider of workplace technology project management, consulting and procurement services to occupiers across the United States. Further, during 2019, the company completed eight in-fill acquisitions: a leading advanced analytics software company based in the U.K., a commercial and residential real estate appraisal firm headquartered in Florida, the company's former affiliate in Omaha, a project management firm in Australia, a valuation and consulting business in Switzerland, a leading project management firm in Israel, a full-service real estate firm in San Antonio with a focus on retail, office, medical office and land, and a debt-focused real estate investment management business in the U.K. These opportunistic acquisitions and strategic investments will likely serve as growth drivers, supplementing its organic growth.

- CBRE Group is focused on maintaining solid balance-sheet strength and ample liquidity amid the challenging macroeconomic conditions. The company exited second-quarter 2020 with $3.5 billion of liquidity and no debt maturities until 2023. The company's net leverage was 0.59X as of the same date. This is 3.66X below the company's primary debt covenant of 4.25X. Notably, the company expects to continue prioritizing liquidity preservation over pursuing large, discretionary capital outlays. Therefore, with significant balance-sheet flexibility and industry-leading market position, the company remains well poised to navigate through current challenging times.

- Shares of CBRE Group have lost 13.6% over the trailing 12-month period compared with the industry's decline of 6.4%. However, the recent trend in earnings estimates revisions for the current quarter reflects a favorable outlook for CBRE Group. The Zacks Consensus Estimate for 2020 earnings per share has been revised upward over the past week. Therefore, given the progress on fundamentals and northward estimate revisions, there is decent upside potential in the near term.

Reasons To Sell:

- The coronavirus pandemic has led to significant amounts of uncertainty, interruption of business activity and substantial impact on global markets as well as adverse impact on consumer and business sentiments. Particularly, in the second quarter, global commercial real estate investment volumes have been adversely affected. CBRE too has not been spared and leasing contracted 38% and 43% globally, and in the United States, respectively, while Property sales fell 48% globally and 51% in the United States. In its advisory services segment, the company now expects the recovery in transaction businesses to be more gradual and drawn out. Revenue declines in the third and fourth quarters are expected to be similar to that of the second quarter.

Macroeconomic uncertainty due to the coronavirus pandemic and adverse impact on commercial real estate transactions are key concerns. Also, there is stiff competition from regional and local players.

- 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 addition, though the company's business is geographically diverse, the United States and the U.K. comprise more than 70% of its global leasing and property sales revenue in 2019. However, with both the United States and the U.K being significantly impacted by the coronavirus pandemic, the company's business is likely to be adversely impacted.

Last Earnings Report

CBRE Group Q2 Earnings & Revenues Beat Estimates

Quarter Ending	06/2020
Report Date	Jul 31, 2020
Sales Surprise	5.25%
EPS Surprise	16.67%
Quarterly EPS	0.35
Annual EPS (TTM)	3.21

CBRE Group reported second-quarter 2020 adjusted earnings per share of 35 cents, beating the Zacks Consensus Estimate of 30 cents. However, the figure plummeted 57.1% year over year.

The company generated revenues of $5.4 billion, outpacing the Zacks Consensus Estimate of $5.1 billion. The revenue figure, however, compares unfavorably with the year-ago quarter's $5.7 billion. Moreover, fee revenues were down 20.8% (19.5% in local currency), year on year, to $2.3 billion. Adjusted EBITDA plunged 42.9% (42.2% local currency) to $267 million.

The company's continued expansion of its contractual businesses over the past decade supported this performance despite the coronavirus pandemic mayhem.

Per management, "Double-digit adjusted EBITDA growth in our Global Workplace Solutions segment demonstrated the resiliency of a business that occupier clients increasingly rely on, in good times and bad, to run essential operations and drive critical cost efficiencies."

However, quarterly results were adversely impacted by incremental Covid-19-related costs and donation to the company's Covid-19 Relief Fund.

Quarter in Detail

The company's Advisory Services segment reported year-over-year revenue decline of 28.7% (27.4% local currency) to $1.6 billion. Fee revenues decreased 30.8% (29.6% local currency) to $1.3 billion.

With capital flows being severely disrupted and market-wide sales activity falling significantly amid the pandemic, global property sales revenues plunged 48% (47% local currency), including a decline of more than 50% in the United States. However, Greater China, Korea, Mexico and Switzerland registered solid sales revenue growth during the quarter.

Advisory leasing revenues dipped 38% (37% local currency), reflecting the impact of the pandemic since late March. With occupiers pausing leasing decisions, activity was weak across major parts of the world. Particularly, U.S. leasing revenues plummeted 43% year on year, though Germany, Greater China and Mexico were among the nations reporting notable growth.

Commercial mortgage origination revenues were down 28% (same local currency). Global capital market revenues, which comprise property sales and commercial mortgage origination, dropped 44% (43% local currency).

Valuation revenues were down 12% (9% local currency). In addition, property management and advisory project management revenues and fee revenues slipped 8% (6% local currency) and 4% (2% local currency), respectively.

However, Global Workplace Solutions segment results were relatively better because of the contractual nature of the facilities management business. The segment registered an increase of 8.3% (10.1% local currency) in revenues to $3.7 billion. Nonetheless, fee revenues edged down 1.2% (but up 0.5% in local currency) to $755 million. Quarterly results reflect growth in facilities management being offset by lower project management and transaction revenues.

Healthy demand from logistics, technology, financial services, and life-sciences sectors supported new contract activity. The company also witnessed a high renewal rate for expiring contracts.

The Real Estate Investments segment recorded 8% (9.5% local currency) growth in revenues to $162 million. However, adjusted EBITDA slumped 40.9% (39.5% local currency). This reflects a lower development asset sales activity due to transaction timing, and losses in the U.K. multi-family residential development business (Telford Homes) and Hana, the start-up flexible workspace business.

At second-quarter end, assets under management (AUM) aggregated $109.6 billion, reflecting an increase of $1.5 billion ($0.7 billion in local currency), from the prior-quarter end. This reflects net capital inflows and beneficial foreign-currency movement.

In-process development portfolio decreased to $13.7 billion, down $0.2 billion from the prior-quarter end. During the quarter, the pipeline increased $0.3 billion to $6.1 billion.

Balance Sheet Position

CBRE Group exited the April-June quarter with cash and cash equivalents of $1.2 billion, up from $971.8 million as of Dec 31, 2019.

As of Jun 30, 2020, the company had $3.5 billion of total liquidity. This comprised $1.1 million in cash in addition to the ability to borrow a total of $2.3 billion under its revolving credit facilities, net of any outstanding letters of credit. The company's net leverage ratio was 0.59x as of the same date. This is 3.66x below the company's primary debt covenant of 4.25x.

During the June-end quarter, the company did not repurchase any of its stock. Currently, it has $350 million of stock-repurchase capacity.

Recent News

CBRE Retains Global Investment Sales Activity Top Spot - Mar 16, 2020

CBRE Group announced that it has once again secured the top spot in the global rankings for commercial real estate investment sales for 2019. The data is as per Real Capital Analytics (RCA).

This, in fact, is the ninth consecutive year of the company securing the first position. Per the RCA data, CBRE had 23% market share in 2019 across all property types on a global basis, which is a massive 680 basis points ahead of its closest competitor. Apart from being number one globally, CBRE held the top spot for commercial real estate investment sales in the Americas and Europe, Middle East & Africa (EMEA).

In 2019, the company executed $61.30 billion in global office sales as seller representative for an industry-leading market share of 21.5%. Further, with $38.43 billion in transactions for a market share of 31.6%, the company once again became the top global firm in logistics and industrial sales.

In addition, CBRE maintained its top global rank in retail sales with $13.62 billion in transactions as well. The company's global market share was 19.7% in 2019. In addition, the company executed $39.57 billion in global apartment sales for a market share of 24%.

Valuation

CBRE Group's shares have been down 13.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 6.4% and 6.1%, over the past year, respectively.

The S&P 500 Index is up 16.4% over the past year.

The stock is currently trading at 16.32X forward 12-month earnings, which compares to 21.88X for the Zacks sub-industry, 16.77X for the Zacks sector and 22.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.25X and as low as 7.35X, with a 5-year median of 14.00X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $48 price target reflects 17.27X 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	16.32	21.88	16.77	22.75
	5-Year High	19.25	21.88	16.77	22.75
	5-Year Low	7.35	11.80	11.59	15.25
	5-Year Median	14	16.42	14.26	17.58
P/S F12M	Current	0.64	3.17	6.22	3.66
	5-Year High	1.12	4.71	6.66	3.66
	5-Year Low	0.38	2.20	4.96	2.53
	5-Year Median	0.74	3.14	6.06	3.05
P/B TTM	Current	2.42	0.48	2.47	4.67
	5-Year High	5.12	0.90	2.91	4.67
	5-Year Low	1.59	0.30	1.72	2.83
	5-Year Median	3.41	0.65	2.53	3.74

As of 08/10/2020

Industry Analysis **Zacks Industry Rank:** Bottom 36% (163 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
FirstService Corporation **(FSV)**	Outperform	1
CushmanWakefield PLC **(CWK)**	Neutral	4
Jones Lang LaSalle Incorporated **(JLL)**	Neutral	3
The RMR Group Inc. **(RMR)**	Neutral	3
WalkerDunlop, Inc. **(WD)**	Neutral	2
Colliers International Group Inc. **(CIGI)**	Underperform	3
MarcusMillichap, Inc. **(MMI)**	Underperform	5
Newmark Group, Inc. **(NMRK)**	Underperform	5

Industry Comparison Industry: Real Estate - Operations

Industry Peers

	CBRE	X Industry	S&P 500	CIGI	CWK	JLL
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	B	D	A
Market Cap	15.21 B	487.13 M	23.56 B	2.49 B	2.39 B	5.08 B
# of Analysts	4	2	14	1	3	4
Dividend Yield	0.00%	0.00%	1.71%	0.16%	0.00%	0.00%
Value Score	A	-	-	B	D	A
Cash/Price	0.09	0.16	0.07	0.07	0.16	0.08
EV/EBITDA	7.89	8.89	13.39	10.79	8.28	6.56
PEG Ratio	1.89	1.80	2.92	NA	1.19	1.93
Price/Book (P/B)	2.42	1.20	3.18	4.99	2.20	0.99
Price/Cash Flow (P/CF)	8.43	8.49	12.69	12.98	5.67	5.22
P/E (F1)	20.79	18.60	22.16	21.45	11.88	17.37
Price/Sales (P/S)	0.63	2.23	2.55	0.87	0.29	0.29
Earnings Yield	5.05%	4.36%	4.33%	4.66%	8.39%	5.75%
Debt/Equity	0.28	0.25	0.77	2.15	2.82	0.41
Cash Flow ($/share)	5.38	1.19	6.94	4.96	1.91	18.82
Growth Score	B	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	15.27%	14.24%	10.41%	5.97%	NA	9.38%
Proj. EPS Growth (F1/F0)	-38.34%	-29.70%	-6.51%	-35.76%	-44.31%	-59.88%
Curr. Cash Flow Growth	11.78%	9.05%	5.26%	12.01%	259.21%	25.02%
Hist. Cash Flow Growth (3-5 yrs)	16.49%	8.96%	8.55%	7.34%	NA	13.41%
Current Ratio	1.23	1.90	1.34	0.99	1.12	2.01
Debt/Capital	21.91%	21.91%	44.59%	74.38%	73.80%	29.10%
Net Margin	4.72%	3.87%	10.13%	2.53%	-1.69%	2.40%
Return on Equity	17.96%	3.38%	14.59%	14.61%	-11.69%	11.47%
Sales/Assets	1.55	0.23	0.51	1.05	1.23	1.32
Proj. Sales Growth (F1/F0)	-4.76%	0.00%	-1.54%	-11.26%	-9.96%	-12.43%
Momentum Score	F	-	-	D	A	F
Daily Price Chg	3.07%	0.00%	0.91%	6.21%	0.56%	3.65%
1 Week Price Chg	0.48%	0.48%	2.30%	12.16%	0.84%	-4.23%
4 Week Price Chg	5.05%	5.00%	8.54%	19.50%	-1.36%	-4.10%
12 Week Price Chg	16.07%	12.22%	13.68%	31.95%	10.26%	4.28%
52 Week Price Chg	-13.58%	-12.70%	3.71%	-7.80%	-37.72%	-29.38%
20 Day Average Volume	1,861,452	13,265	2,015,804	72,889	642,147	393,683
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-17.58%
(F1) EPS Est 4 week change	-9.85%	0.00%	1.67%	0.00%	0.00%	-24.24%
(F1) EPS Est 12 week change	-14.75%	0.00%	2.27%	-1.69%	0.00%	-24.24%
(Q1) EPS Est Mthly Chg	-24.15%	0.00%	0.67%	0.00%	0.00%	-21.83%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	B
Momentum Score	F
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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