

CBRE Group Inc. (CBRE)

\$44.53 (As of 03/12/20)

Price Target (6-12 Months): **\$47.00**

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:A

Value: B

Growth: A

Momentum: A

Summary

CBRE Group's fourth-quarter 2019 adjusted earnings per share increased 8.8% year over year. Results reflect strong property sales and occupier outsourcing growth though decline in leasing activity and lower contributions from Real Estate Investments segment acted as dampeners. The company is anticipated to ride high, backed by its extensive real estate products and service offerings, improving leasing and outsourcing business, strategic acquisitions and transformational deals and a healthy balance sheet. However, despite significant capital availability, the global real estate market environment remains cautious and the potential impact of the coronavirus outbreak made things jittery, which are anticipated to temper investment volumes and leasing activity this year. Also, CBRE shares have underperformed its industry over the past year.

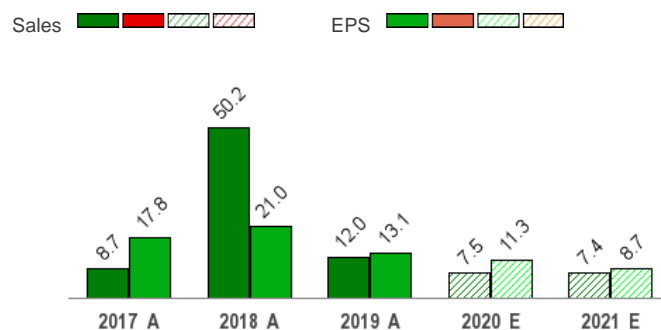
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.75 - \$44.41
20 Day Average Volume (sh)	1,995,316
Market Cap	\$14.9 B
YTD Price Change	-27.4%
Beta	1.64
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Real Estate - Operations
Zacks Industry Rank	Bottom 40% (153 out of 253)

Sales and EPS Growth Rates (Y/Y %)

**Sales Estimates** (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,012 E	6,678 E	7,060 E	8,196 E	27,587 E
2020	5,591 E	5,963 E	6,597 E	7,676 E	25,689 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	\$0.81 E	\$0.96 E	\$1.12 E	\$1.66 E	\$4.49 E
2020	\$0.74 E	\$0.78 E	\$1.21 E	\$1.53 E	\$4.13 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.

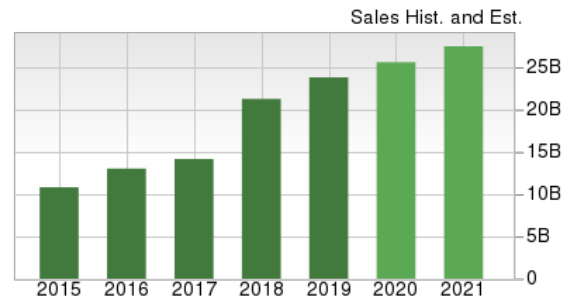
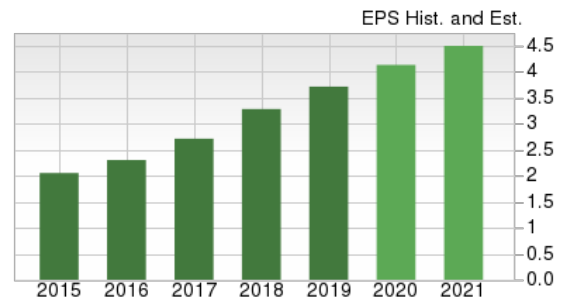
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/12/2020. The reports text is as of 03/13/2020.

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 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 capitalizing on the commercial real estate industry tailwinds. 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'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 72% of total fee revenues in fourth-quarter 2019. 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. Particularly, in fourth-quarter 2019, new business in the quarter is diversified among many industries while multi-service contracts are consistently driving growth substantially. Moreover, high-quality client base is bumping up contractual revenues.
- ▲ 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 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. Moreover, in 2018, the company completed six in-fill buyouts. These opportunistic acquisitions and strategic investments will likely serve as growth drivers, supplementing its organic growth.
- ▲ The company deployed nearly \$930 million of capital during 2019 while reducing leverage and building further balance sheet capacity. As of Dec 31, 2019, it had \$3.7 billion of total liquidity. The company's net leverage ratio was 0.42x as of the same date. This adequate liquidity and cash flow offer the company a solid platform for growth. The company's solid business momentum, credit profile and growth in recurring revenues are likely to ensure a steady cash flow in the upcoming period.
- ▲ Shares of CBRE Group have underperformed its industry over the past year. The stock has declined 11.1% compared with the industry's slip of 6.8% during the same time period. However, the recent trend in current-year estimate revisions indicates a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 earnings per share witnessed a marginal upward revision over the past month. Given its improvement on fundamentals and positive estimate revisions, there is a decent upside potential for the stock.

Reasons To Sell:

- ▼ Commercial real estate industry seems to be entering the late stages of its growth cycle. In fact, after years of witnessing decent growth, property sales decelerated in the past couple of years. The global landscape is persistently wary and particularly, the potential impact of the coronavirus outbreak spooked investors by and large. Amid these, investment volumes in 2020 are likely to get depleted from the 2019-levels. Also, leasing in the current year is anticipated to be lower from the previous year's trend.
- ▼ 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.

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

Last Earnings Report

CBRE Group's Q4 Earnings Miss, Revenues Top Estimates

CBRE Group reported fourth-quarter 2019 adjusted earnings per share of \$1.32 cents, missing the Zacks Consensus Estimate of \$1.34. However, the figure increased 8.8% year over year.

Though results reflect strong property sales and occupier outsourcing growth, decline in leasing activity and lower contributions from Real Estate Investments segment acted as dampeners.

The company generated revenues of \$7.1 billion, outpacing the Zacks Consensus Estimate of \$6.97 billion. The revenue figure also compares favorably with the year-ago quarter's \$6.3 billion.

Moreover, fee revenues were up 7.9% (8.7% in local currency), year on year, to \$3.7 billion. Adjusted EBITDA increased 5.5% (6.3% local currency) to \$691 million.

For full-year 2019, the company reported adjusted earnings per share of \$3.71, up 13.2% year on year. It marked the 10th consecutive year of double-digit adjusted earnings per share growth. Revenues for the year came in at \$23.9 billion, up 12% from the prior year.

Quarter in Detail

The company's Advisory Services segment registered year-over-year revenue growth of 3.4% (4.3% local currency) to \$2.8 billion. Fee revenues increased 2.8% (3.6% local currency) to \$2.5 billion.

The upswing was driven by global property sales, which jumped 21% (22% local currency), and reached its highest level ever for a quarter, indicating solid capital flows to commercial real estate.

However, commercial mortgage origination revenues were down 15% (same local currency). Global capital market revenues, which comprise property sales and commercial mortgage origination, were up 13% (14% local currency).

Advisory leasing revenues fell 7% (6% local currency). Although leasing revenues for the period emerged as the second highest ever for the company, the decline indicates a challenging comparison, year on year, as leasing revenues grew significantly in the year-ago period.

Valuation revenue rose 8% (10% local currency). In addition, property management and advisory project management revenues and fee revenues climbed 8% (10% local currency) and 8% (9% local currency), respectively.

Furthermore, Global Workplace Solutions segment registered an increase of 18.6% (19.4% local currency) in revenues to \$4.06 billion. Fee revenues increased 13.4% (14.1% local currency) to \$877 million. Performance was particularly strong in the Americas, Asia Pacific and the U.K. Solid revenue growth and cost discipline helped drive margin improvement across facilities management, project management and transaction services. Occupier demand for multiple services was solid and the new business pipeline remains strong.

The Real Estate Investments segment recorded 62.7% (63.7% local currency) growth in revenues to \$247 million. However, adjusted EBITDA slid 18.2% (16.9% local currency). This decline reflects some large asset sales in the development and investment management businesses shifting from fourth-quarter 2019 to early 2020.

At year-end 2019, assets under management (AUM) reached a record high of \$112.9 billion, marking an increase of \$6.7 billion (\$4 billion in local currency) from the prior quarter, reflecting decent capital raising, gains in asset values and favorable foreign-currency movement.

In-process development portfolio increased to \$13 billion, up \$2.1 billion from third-quarter 2019. There was a \$2.3-billion increase in the pipeline during the fourth quarter to \$5.8 billion. This indicates Telford contributions, fee development and built-to-suit projects.

Liquidity

CBRE Group exited fourth-quarter 2019 with cash and cash equivalents of around \$971.8 million, up from \$777.2 million as of Dec 31, 2018. As of Dec 31, 2019, the company had \$3.7 billion of total liquidity. This comprised \$901 million in cash in addition to the ability to borrow a total of \$2.8 billion under its revolving credit facilities, net of any outstanding letters of credit. The company's net leverage ratio was 0.42x as of the same date.

During the December-end quarter, the company repurchased a total of 1 million shares of its common stock for \$51 million at an average price of \$50.85 per share. Currently, the company has \$400 million of stock-repurchase capacity.

Outlook

CBRE Group projects 2020 adjusted earnings per share at \$4.05-\$4.25. This indicates an increase of 12% year on year at the mid-point. Growth is anticipated to be stronger in the second half of the year.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	2.19%
EPS Surprise	-1.49%
Quarterly EPS	1.32
Annual EPS (TTM)	3.71

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."

Valuation

CBRE Group's shares have been down 11.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 18.6% and 15.4%, over the past year.

The S&P 500 Index has been down 3.4% over the trailing 12-month period.

The stock is currently trading at 10.60X forward 12-month earnings, which compares to 11.82X for the Zacks sub-industry, 11.79X for the Zacks sector and 15.84X 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 14.12X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$47 price target reflects 11.19X 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	10.6	11.82	11.79	15.84
	5-Year High	19.6	22.36	16.21	19.34
	5-Year Low	9.93	11.82	11.79	15.18
	5-Year Median	14.12	18.45	13.97	17.42
P/S F12M	Current	0.57	2.13	5.99	2.91
	5-Year High	1.3	3.31	6.64	3.44
	5-Year Low	0.57	1.81	5.39	2.54
	5-Year Median	0.78	2.24	6.04	3
P/B TTM	Current	2.38	0.35	2.21	3.69
	5-Year High	5.62	0.88	2.89	4.56
	5-Year Low	2.38	0.35	1.83	2.85
	5-Year Median	3.47	0.58	2.52	3.63

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (153 out of 253)



Top Peers

Colliers International Group Inc. (CIGI)	Neutral
Cushman & Wakefield PLC (CWK)	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
FirstService Corporation (FSV)	Underperform

Industry Comparison Industry: Real Estate - Operations				Industry Peers		
	CBRE Neutral	X Industry	S&P 500	CIGI Neutral	CWK Neutral	JLL Neutral
VGM Score	A	-	-	B	A	A
Market Cap	14.91 B	414.08 M	17.38 B	2.43 B	2.79 B	6.30 B
# of Analysts	4	2	13	2	3	4
Dividend Yield	0.00%	0.00%	2.51%	0.16%	0.00%	0.70%
Value Score	B	-	-	B	B	A
Cash/Price	0.06	0.13	0.05	0.04	0.22	0.06
EV/EBITDA	8.38	7.38	10.90	9.29	8.26	7.55
PEG Ratio	0.98	0.98	1.54	NA	0.66	0.98
Price/Book (P/B)	2.38	1.06	2.35	4.70	2.14	1.21
Price/Cash Flow (P/CF)	8.28	7.93	9.60	12.31	6.64	6.50
P/E (F1)	10.78	10.69	13.98	11.96	6.60	8.78
Price/Sales (P/S)	0.62	2.37	1.89	0.80	0.32	0.35
Earnings Yield	9.27%	9.27%	7.07%	8.36%	15.12%	11.39%
Debt/Equity	0.45	0.34	0.70	1.17	2.36	0.37
Cash Flow (\$/share)	5.38	1.18	7.01	5.13	1.91	18.82
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	17.43%	14.09%	10.85%	7.17%	NA	8.08%
Proj. EPS Growth (F1/F0)	11.25%	10.81%	5.99%	13.06%	17.27%	-1.16%
Curr. Cash Flow Growth	11.78%	11.78%	6.15%	12.01%	259.21%	25.02%
Hist. Cash Flow Growth (3-5 yrs)	16.49%	7.78%	8.52%	7.34%	NA	13.41%
Current Ratio	1.17	1.82	1.24	0.78	1.23	1.64
Debt/Capital	31.00%	30.40%	42.57%	65.13%	70.28%	27.12%
Net Margin	5.37%	5.37%	11.64%	3.38%	0.00%	2.98%
Return on Equity	22.53%	3.83%	16.74%	22.77%	0.02%	15.64%
Sales/Assets	1.58	0.23	0.54	1.17	1.28	1.50
Proj. Sales Growth (F1/F0)	7.51%	1.70%	3.54%	8.44%	3.36%	2.65%
Momentum Score	A	-	-	F	F	D
Daily Price Chg	-10.38%	-6.61%	-10.03%	-12.63%	-13.43%	-12.30%
1 Week Price Chg	-2.78%	-1.45%	-0.67%	-1.45%	-8.19%	-1.81%
4 Week Price Chg	-30.55%	-24.78%	-28.22%	-27.87%	-34.67%	-28.13%
12 Week Price Chg	-25.56%	-20.37%	-25.63%	-13.76%	-36.78%	-28.34%
52 Week Price Chg	-11.14%	-16.68%	-16.72%	-3.68%	-31.46%	-24.41%
20 Day Average Volume	1,995,316	10,620	3,061,271	107,073	812,125	556,466
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.78%	-24.51%	0.00%
(F1) EPS Est 4 week change	0.12%	0.00%	-0.32%	-5.29%	-12.00%	1.22%
(F1) EPS Est 12 week change	0.12%	-2.05%	-0.65%	-5.29%	-12.00%	1.87%
(Q1) EPS Est Mthly Chg	-0.67%	0.00%	-0.62%	NA	NA	-7.07%

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	A
Momentum Score	A
VGM Score	A

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.

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