

## Cousins Properties (CUZ)

**\$39.12** (As of 03/04/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/31/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

### Summary

Capitalizing on the migration trend to the Sun Belt region, Cousins Properties has enhanced its geographic mix and a disciplined balance sheet supports growth endeavors. The company's fourth-quarter 2019 funds from operations (FFO) per share (before TIER transaction costs) of 73 cents missed the Zacks Consensus Estimate by a whisker but improved year on year. Results reflect growth in rental property revenues, though increase in general and administrative expenses played spoilsport. The company expects robust fundamentals in its Sunbelt markets to keep driving internal and external growth, based on which it raised the 2020 FFO guidance. However, higher construction activity in its markets might boost supply, resulting in lesser scope for rent and occupancy growth. Also, its shares have underperformed the industry in the past year.

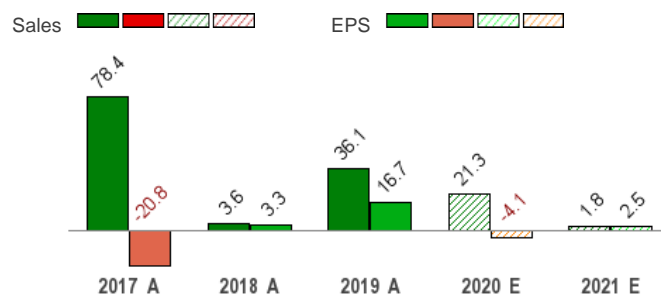
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$42.99 - \$32.89
20 Day Average Volume (sh)	794,275
Market Cap	\$5.7 B
YTD Price Change	-5.1%
Beta	0.99
Dividend / Div Yld	\$1.16 / 3.0%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 39% (155 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.4%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	16.6
P/E F1	13.9
PEG F1	3.5
P/S TTM	8.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	192 E	193 E	194 E	194 E	777 E
2020	191 E	192 E	193 E	193 E	763 E
2019	123 A	135 A	181 A	189 A	629 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.71 E	\$0.72 E	\$0.72 E	\$0.73 E	\$2.89 E
2020	\$0.71 E	\$0.69 E	\$0.71 E	\$0.71 E	\$2.82 E
2019	\$0.80 A	\$0.71 A	\$0.72 A	\$0.73 A	\$2.94 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 03/04/2020. The reports text is as of 03/05/2020.

## Overview

Founded in 1958, Cousins Properties Incorporated is a real estate investment trust (REIT) based in Atlanta, GA. The company engages in the acquisition, ownership, development and management of Class A office and mixed-use properties throughout the Sunbelt markets of the United States, with special focus on Arizona, Florida, Georgia, North Carolina, and Texas.

As of Dec 31, 2019, the company's portfolio of real estate assets comprised interests in 38 operating properties, having 21.8 million square feet of rentable space, and six projects (five office and one mixed-use) under active development.

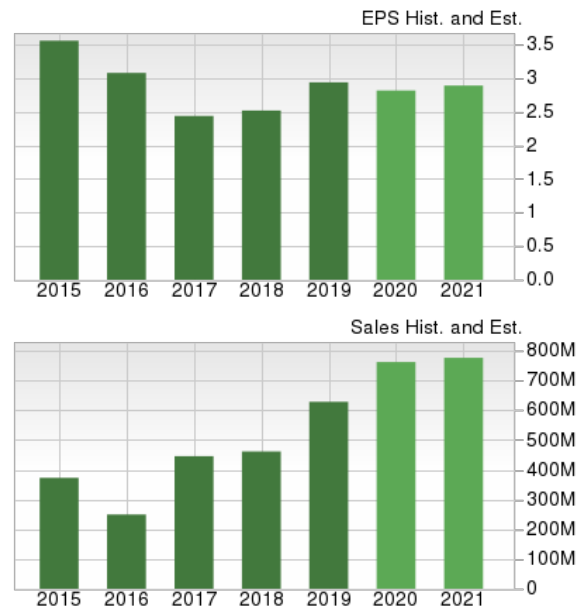
Cousins Properties is enhancing its scale on the back of strategic transactions. This June, it completed the merger with TIER REIT in a 100% stock-for-stock deal. The move has helped create a Sun Belt-focused Class A office REIT, which will likely benefit from improved market scale, and realize operational and leasing synergies.

Moreover, following the merger on Jun 17, 2019, Cousins Properties announced that it has completed a one-for-four reverse stock split for outstanding shares of its common stock.

Earlier in October 2016, Cousins Properties closed the merger with Parkway Properties. The over \$2 billion stock-for-stock merger and the simultaneous spin-off of the Houston-based assets of both companies into a new publicly-traded REIT paved way for strengthening the company's portfolio with high-quality assets and exit the troubled Houston market simultaneously.

On Oct 1, Cousins Properties completed the previously-announced transaction to acquire its partner's 50% interest in Terminus Office Holdings LLC (TOH) for \$148 million. The transaction is valued Terminus 100 and 200 (located in Atlanta) at \$503 million. The company will consolidate TOH and record Terminus 100, Terminus 200, and the related notes payable at fair value in the ongoing quarter. Further, it will recognize a gain of around \$94 million in stages.

*Note: All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*



---

## Reasons To Buy:

- ▲ Cousins Properties owns an unmatched portfolio of Class A office assets concentrated in the high-growth Sun Belt markets. This region is experiencing influx of population. The demand for office space is high amid favorable migration trend and pro-business environment. With a resilient economy and an encouraging job-market environment, the office market fundamentals of this region will likely remain robust. Assets in these markets are expected to command higher rents compared with the broader market.
- ▲ With significant presence in the best urban submarkets in each city, Cousins Properties has ample scope for rent growth. Furthermore, the company has a well-diversified, high-end tenant roster with less dependence on a single industry. This enables the company to enjoy steady revenues over different economic cycles. Additionally, the company has enjoyed 32 consecutive quarters of year-over-year growth in cash net operating income (NOI).
- ▲ Moreover, the company makes concerted efforts to build a stronger platform with trophy assets' acquisitions and opportunistic developments in high-barrier-to-entry submarkets in Atlanta, Austin, Charlotte, Phoenix and Tampa. Currently, the company's development pipeline aggregates \$565 million, and includes 1.5 million square feet of office space. With fundamentals of the company's Class A office real estate portfolio remaining solid, the company is expected to experience robust rent growth and positive net absorption in its markets.
- ▲ Cousins Properties focuses on maintaining a fortress balance sheet, with ample liquidity to leverage on improving market fundamentals and raise operational efficiency, which aids in long-term growth. The company has a well-laddered debt maturity schedule with weighted average maturity of 5.4 years. Also, the company currently enjoys approximately \$765 million of liquidity. Given the company's healthy financial position and lower debt-to-equity ratio compared with that of the industry, the company is well poised to pursue its growth plans.
- ▲ Shares of Cousins Properties have underperformed the industry it belongs to in the past year. During this period, shares of the company have rallied 1% compared with the industry's growth of 12.4%. However, the trend in estimate revision for 2020 FFO per share indicates a favorable outlook for the company as it has witnessed marginal upward revision over the past month. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has decent upside potential.

Cousins Properties' diversified portfolio, high-end tenant roster, opportunistic investments in best sub-markets and a conservative balance sheet keep the growth momentum going.

---

## Reasons To Sell:

- ▼ There is stiff competition from developers, owners and operators of office properties and other commercial real estate and this affects the company's ability to retain tenants at relatively higher rents and dents its pricing power. In addition, higher construction activity is expected to increase new supply of Class A office space in the company's market. This too is intensifying competition for the company, leading to lesser scope for rent and occupancy growth.
- ▼ The company has a significant development pipeline, with an estimated project cost of \$565.6 million. In addition, the company focuses to increase its land bank. Although such activities are accretive for value creation, it requires huge capital outlays. Furthermore, an extensive development pipeline increases the company's operational risks by exposing it to construction cost overruns, entitlement delays and lease-up risks.
- ▼ The company's assets are concentrated in Atlanta, Austin, Charlotte, Phoenix and Tampa. Particularly, as of Dec 31, 2019, Atlanta, Austin and Charlotte contributed 33.8%, 23.2% and 16.9%, respectively, to the company's NOI. Hence, any economic or political downturn in these markets will likely affect Cousins Properties' performance.
- ▼ Although interest rate levels are currently low, any hike in future poses a challenge for Cousins Properties. This is because the company's ability to refinance existing debt would be restricted, while the interest cost on new debt would increase. This could adversely affect the company's financial results and consequently dent its dividend payout. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.

A competitive landscape and high supply in the office real estate market are expected to adversely impact Cousins Properties' pricing power. Also, it has significant concentration of assets.

## Last Earnings Report

### Cousins Properties Misses Q4 FFO Estimates, Guides Up

Cousins Properties reported fourth-quarter 2019 FFO per share (before TIER transaction costs) of 73 cents, missing the Zacks Consensus Estimate of 74 cents by a whisker. However, the figure improved from the prior-year quarter's 67 cents.

Quarterly results reflect growth in rental property revenues, though increase in general and administrative expenses played spoilsport. The company expects strong fundamentals in its Sunbelt markets to keep driving internal and external growth, based on which it raised the 2020 FFO guidance.

Rental property revenues for the quarter came in at \$189.1 million, compared with \$119.6 million in the year-ago quarter. The figure also outpaced the Zacks Consensus Estimate of \$183.6 million.

For 2019, FFO per share (before TIER transaction costs) was \$2.94, higher than the prior-year tally of \$2.51. Full-year rental property revenues came in at \$628.7 million, up 35.7% year over year.

#### Quarter in Detail

Cousins Properties executed leases for 561,651 square feet of office space during the December quarter. Same-property NOI, on a cash basis, increased 6% from the year-ago quarter. Moreover, second-generation net rent per square foot (cash basis) increased 12.6%. Weighted average occupancy for the company's same-property portfolio of 91.1% for the quarter ended Dec 31, 2019, expanded 20 basis points from the prior quarter.

Cousins Properties exited the fourth quarter with cash and cash equivalents of around \$15.6 million compared with the \$2.5 million recorded as of Dec 31, 2018.

#### 2020 Outlook

Cousins Properties raised its 2020 FFO per share outlook to \$2.72-\$2.86 from \$2.71-\$2.85.

The company's updated earnings guidance takes into account 5% same property NOI growth along with a new development start in Phoenix.

Quarter Ending **12/2019**

Report Date	<b>Feb 05, 2020</b>
Sales Surprise	<b>3.02%</b>
EPS Surprise	<b>-1.35%</b>
Quarterly EPS	<b>0.73</b>
Annual EPS (TTM)	<b>2.96</b>

## Recent News

### Cousins Properties Begins Development of 100 Mill in Association With Hines - Feb 5, 2020

Cousins Properties and Hines announced commencement of development of a 287,000 square foot, 18 story office tower — 100 Mill — in downtown Tempe, AZ. Positioned on the southwest corner of Mill Avenue and Rio Salado Parkway and neighboring Cousins' present 1.3 million square foot Tempe office portfolio, the latest development project is witnessing healthy demand. In fact, 100 Mill is currently 44% pre-leased, with two long-term lease commitments from a Fortune 100 company and a professional services firm.

Notably, in the joint venture developing the project, Cousins has a 90% ownership stake, while Hines has the remaining 10%. Initial occupancy is anticipated in the first quarter of 2020 and the total development cost is estimated to be \$153 million.

### Dividend Update

On Dec 18, Cousins Properties announced a common stock dividend of 29 cents per share for fourth-quarter 2019. The dividend was paid on Jan 13, to shareholders of record on Jan 3, 2020.

## Valuation

Cousins Properties' shares have increased 1% in the trailing 12 months. Stocks in the Zacks sub-industry gained 12.4%, while the Zacks Finance sector declined 2.1%, over the past year.

The S&P 500 Index has been up 6.9% over the trailing 12-month period.

The stock is currently trading at 13.82X forward 12-month FFO, which compares to 18.29X for the Zacks sub-industry, 13.35X for the Zacks sector and 17.15X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.57X and as low as 8.74X, with a 5-year median of 13.31X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 14.48X FFO.

The table below shows summary valuation data for CUZ.

Valuation Multiples - CUZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	13.82	18.29	13.35	17.15
	5-Year High	15.57	18.7	16.21	19.34
	5-Year Low	8.74	14.32	12.01	15.18
	5-Year Median	13.31	16.1	13.97	17.44
P/S F12M	Current	7.51	8.25	6.55	3.16
	5-Year High	11.02	8.25	6.65	3.43
	5-Year Low	4.3	5.91	5.39	2.54
	5-Year Median	7.49	6.87	6.04	3.01
P/B TTM	Current	1.3	2.7	2.53	4.01
	5-Year High	1.5	2.87	2.89	4.54
	5-Year Low	0.91	2.07	1.83	2.85
	5-Year Median	1.33	2.52	2.52	3.62

As of 03/04/2020

## Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 255)



## Top Peers

Alexandria Real Estate Equities, Inc. (ARE)	Neutral
Boston Properties, Inc. (BXP)	Neutral
Douglas Emmett, Inc. (DEI)	Neutral
Highwoods Properties, Inc. (HIW)	Neutral
Hudson Pacific Properties, Inc. (HPP)	Neutral
Kilroy Realty Corporation (KRC)	Neutral
Piedmont Office Realty Trust, Inc. (PDM)	Neutral
SL Green Realty Corporation (SLG)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	CUZ Neutral	X Industry	S&P 500	ARE Neutral	BXP Neutral	SLG Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>D</b>	<b>F</b>	<b>D</b>
Market Cap	5.74 B	2.85 B	22.29 B	20.05 B	21.43 B	6.59 B
# of Analysts	5	4	13	3	9	9
Dividend Yield	2.97%	4.15%	1.97%	2.52%	2.84%	4.18%
<b>Value Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Cash/Price	0.00	0.02	0.05	0.01	0.03	0.04
EV/EBITDA	23.26	16.87	13.20	24.23	18.86	17.10
PEG Ratio	3.39	3.41	1.94	4.87	2.87	2.76
Price/Book (P/B)	1.30	1.58	3.05	1.98	2.73	1.19
Price/Cash Flow (P/CF)	14.04	14.16	12.16	22.70	17.77	12.22
P/E (F1)	13.51	15.30	17.58	22.12	18.20	11.69
Price/Sales (P/S)	8.74	6.38	2.45	13.10	7.24	5.32
Earnings Yield	7.21%	6.55%	5.69%	4.52%	5.50%	8.56%
Debt/Equity	0.50	0.88	0.70	0.67	1.51	0.97
Cash Flow (\$/share)	2.79	2.01	7.01	7.20	7.77	6.92
<b>Growth Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	-7.00%	2.75%	10.85%	7.84%	5.43%	-0.14%
Proj. EPS Growth (F1/F0)	-4.15%	2.86%	6.26%	6.18%	8.24%	3.39%
Curr. Cash Flow Growth	55.56%	4.79%	6.03%	4.79%	-2.18%	-27.69%
Hist. Cash Flow Growth (3-5 yrs)	18.86%	12.96%	8.52%	23.85%	2.27%	-0.78%
Current Ratio	0.68	1.28	1.23	0.19	4.15	1.62
Debt/Capital	33.42%	47.05%	42.57%	40.07%	59.58%	47.20%
Net Margin	22.88%	13.67%	11.69%	23.72%	17.62%	21.83%
Return on Equity	3.77%	4.47%	16.66%	4.07%	6.64%	4.56%
Sales/Assets	0.11	0.13	0.54	0.09	0.14	0.09
Proj. Sales Growth (F1/F0)	21.39%	3.69%	3.94%	0.00%	3.69%	0.08%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>B</b>	<b>F</b>	<b>B</b>
Daily Price Chg	5.27%	3.18%	3.75%	3.61%	3.93%	4.82%
1 Week Price Chg	-15.39%	-12.19%	-12.06%	-9.58%	-11.55%	-16.00%
4 Week Price Chg	-5.46%	-4.18%	-7.42%	-2.67%	-4.78%	-11.22%
12 Week Price Chg	-2.22%	0.00%	-4.61%	2.74%	0.60%	-5.51%
52 Week Price Chg	1.03%	6.60%	7.38%	18.82%	4.24%	-6.91%
20 Day Average Volume	794,275	618,725	2,456,671	830,882	843,132	737,367
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.28%	-0.14%	-0.06%	0.18%	0.00%	0.00%
(F1) EPS Est 12 week change	0.02%	-0.34%	-0.41%	0.45%	0.52%	4.11%
(Q1) EPS Est Mthly Chg	3.68%	-0.04%	-0.27%	1.40%	0.00%	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>D</b>
Growth Score	<b>B</b>
Momentum Score	<b>A</b>
VGM Score	<b>C</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

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.