

Cousins Properties (CUZ)

\$35.30 (As of 06/04/20)

Price Target (6-12 Months): **\$37.00**

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:F

Value: D

Growth: F

Momentum: C

Summary

Cousins Properties' better-than-expected results reflect growth in rental property revenues. Yet, the company withdrew its outlook for the current year due to the pandemic. Notably, capitalizing on the migration trend and long-term prospects in the Sun-Belt region, it is strengthening its portfolio by undertaking new developments and non-core asset sales. Moreover, amid the coronavirus outbreak crisis, a high-end tenant roster has allowed 96% May rent collections. Low financial leverage and excellent liquidity with limited near-term capital needs are also positives. However, the company's shares have underperformed the industry in the past year. Also, a competitive landscape and geographic concentration of its assets are worrisome. Further, the coronavirus pandemic and the related setbacks continue to hinder its leasing activities.

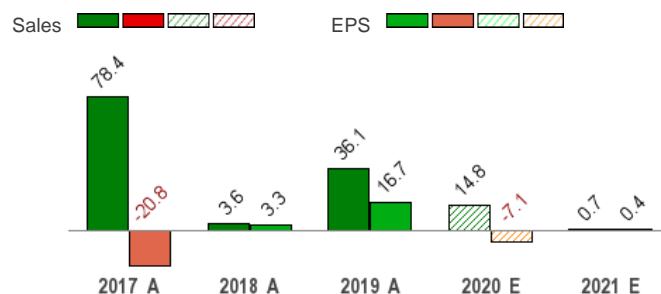
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.99 - \$21.15
20 Day Average Volume (sh)	1,464,439
Market Cap	\$5.2 B
YTD Price Change	-14.3%
Beta	0.97
Dividend / Div Yld	\$1.20 / 3.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 47% (120 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.6%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	-3.4%
P/E TTM	12.1
P/E F1	12.9
PEG F1	3.2
P/S TTM	7.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	187 E	188 E	190 E	192 E	727 E
2020	189 A	176 E	178 E	180 E	722 E
2019	123 A	135 A	181 A	189 A	629 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.68 E	\$0.68 E	\$0.68 E	\$0.68 E	\$2.74 E
2020	\$0.76 A	\$0.65 E	\$0.67 E	\$0.68 E	\$2.73 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 06/04/2020. The reports text is as of 06/05/2020.

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 Mar 31, 2020, the company's portfolio of real estate assets comprised interests in 35 operating properties, having 19.4 million square feet of rentable space, and six projects (five office and one mixed-use) under active development.

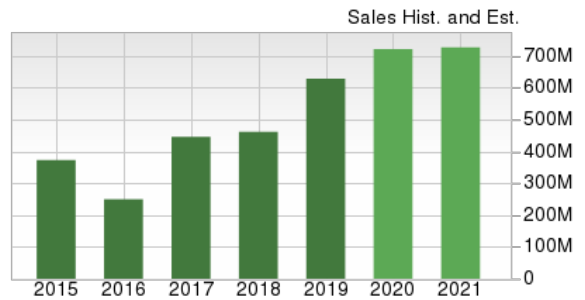
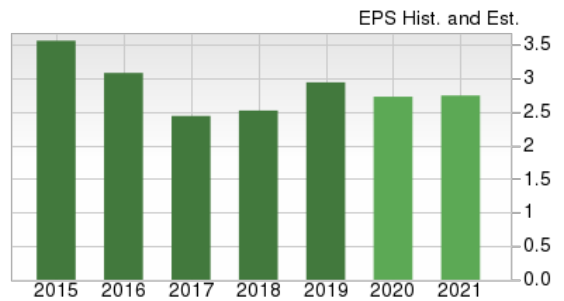
Cousins Properties is enhancing its scale on the back of strategic transactions. This June, it completed the merger with TIER REIT in a 100% stock-for-stock deal. The move has helped create a Sun Belt-focused Class A office REIT, which will likely benefit from improved market scale, and realize operational 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 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 has an unmatched portfolio of Class A office assets concentrated in the high-growth Sun Belt markets. This region is experiencing a population influx. The demand for office space has been high amid favorable migration trends and pro-business environment. In fact, the company's 19.4-million square-foot portfolio was 93% leased as of first-quarter end. 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 enjoyed healthy demand for its properties. 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. In fact, amid the coronavirus-led market mayhem, the company has collected 96% of its May rents, including 97% from its office tenants. Additionally, the company has enjoyed 33 consecutive quarters of year-over-year growth in same-property cash net operating income (NOI).
- ▲ Going forward, the next cycle of office-space demand will likely be driven by de-densification to allow higher square footage per office worker and the need for better-amenitized office properties to focus on health & wellness amid social-distancing requirements. Moreover, tenant downsizing is less likely and this will improve tenant retention. Hence, with high-quality properties in strategic submarkets, Cousins Properties is well-positioned to benefit from the emerging trend.
- ▲ 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 \$566 million. The office pipeline is 82% pre-leased and is expected to add \$70 million of NOI by 2022 end.
- ▲ Cousins Properties focuses on maintaining a fortress balance sheet, with ample liquidity to leverage on improving market fundamentals. In fact, the company garnered total proceeds of about \$533 million in the first quarter from asset sales that reduced its net debt-to-adjusted EBITDA to 3.66 times at the first-quarter end. A low-leveraged balance sheet allows it to pursue investment opportunities. Also, the company's \$1.1-billion liquidity is sufficient to fund the remaining \$200 million of development pipeline and limited near-term maturities. Moreover, as of Mar 31, 2020, 79% of its portfolio was unencumbered. With a high percentage of such assets, the company can enjoy accessibility to secured and unsecured debt markets, and maintain availability on the line.

Cousins Properties' high-quality portfolio, impressive tenant roster, opportunistic investments, and developments in best sub-markets and strong 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. Also, the coronavirus pandemic and the resultant impact on the economy and real estate sector add to its woes. In fact, the company anticipates that the closure of all remaining speculative leasing commencements might reduce the NOI by \$1.5 million. Moreover, new leasing activity has slowed.
- ▼ The company has a significant development pipeline, with an estimated project cost of \$566 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 Mar 31, 2020, Atlanta, Austin and Charlotte contributed 37.5%, 24.5% and 12.1%, respectively, to the company's NOI. Hence, any economic or political downturn in the markets will likely affect Cousins Properties' performance.
- ▼ Shares of the company have underperformed the industry it belongs to in the past year. During this period, its shares have depreciated 3.9% compared with the industry's decline of 2.9%. The company's first-quarter FFO per share witnessed a year-over-year decline. Moreover, the trend in estimate revision for 2020 FFO per share does not indicate a favorable outlook for the company as it has remained unchanged over the past month. Therefore, given the above-mentioned concerns and the lack of positive estimate revisions, the stock has limited upside potential in the near term.

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 Beats on Q1 FFO, Scraps '20 View

Cousins Properties reported first-quarter 2020 FFO per share of 76 cents, surpassing the Zacks Consensus Estimate of 70 cents. However, the figure came in lower than the prior-year quarter's 80 cents.

Rental property revenues for the quarter came in at \$189.1 million, marking a 52.6% jump, year on year. The figure also outpaced the Zacks Consensus Estimate of \$188.3 million.

Quarterly results reflect growth in rental property revenues and decline in general and administrative expenses. However, rise in rental-property operating expenses played spoilsport.

However, the company has withdrawn its outlook for the current year in light of the coronavirus pandemic.

Quarter in Detail

Cousins Properties executed leases for 475,783 square feet of office space during the March-end quarter. Same-property NOI, on a cash basis, increased 11.4% from the year-ago quarter. Moreover, second-generation net rent per square foot (cash basis) climbed 14.3%.

Weighted average occupancy for the company's same-property portfolio of 91.4% for the quarter ended Mar 31, 2020, expanded 30 basis points from the prior quarter.

Cousins Properties exited the first quarter with cash and cash equivalents of \$124.6 million compared with the \$15.6 million recorded as of Dec 31, 2019. The company has \$1.1 billion of available liquidity.

Portfolio Activity

During the first quarter, the company sold Hearst Tower office property in Charlotte, spanning an area of 966,000 square feet, for \$455.5 million, making a gain of \$90.9 million.

Cousins Properties also sold its interest in the Gateway Village joint venture to its partner for \$52.2 million. The company made a gain of \$44.9 million from the transaction.

Further, the company begun development of 100 Mill, a 287,000-square-foot office building in Phoenix, with a total expected project cost of \$153 million. The project has a pre-leasing of 44%.

2020 Outlook

The company withdrew its 2020 FFO per share outlook in light of the uncertainties related to the coronavirus pandemic. Cousins Properties had earlier guided its 2020 FFO per share in the range of \$2.72-\$2.86.

The company anticipates that the closure of all remaining speculative leasing commencements might reduce the NOI by \$1.5 million. In addition, a fall in revenues from parking activities is expected to hit the NOI by \$3.5-\$9.5 million. Further, rent deferrals might dent the NOI by \$1-\$3 million.

The company, however, expects a fall in general and administrative and interest expenses of \$3-\$5 million due to several cost-reduction measures.

Moreover, fee and other income will rise by \$2 million to reflect the Parsley termination fee. However, NOI is projected to decline \$1 million due to the transaction.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	0.45%
EPS Surprise	8.57%
Quarterly EPS	0.76
Annual EPS (TTM)	2.92

Recent News

Cousins Properties Closes Sale of Assets in Uptown Charlotte – Mar 31, 2020

Cousins Properties announced that it has completed the sale of two of its assets in Uptown Charlotte, the central business district of Charlotte, North Carolina. Particularly, the company completed the sale of Hearst Tower, an office tower in Uptown Charlotte to Truist Financial Corporation, for a gross price of about \$455.5 million. The property comprises 966,000-square-foot of space. The deal was announced on Dec 11, 2019 with no changes in the terms of transactions since then.

Moreover, Cousins Properties sold off its interest in another office property in Uptown Charlotte, Gateway Village, to its joint venture partner for about \$52.2 million. The proceeds from the sale of its stake in this property, spanning an area of about one million square foot, resulted in 17% internal rate of return for Cousins Properties on its invested capital. The terms of the transaction remained unchanged from when it was earlier announced in early February this year.

With the conclusion of these two transactions and the one in Woodcrest, NJ, the company garnered proceeds of about \$533 million in the first quarter of 2020. Moreover, the company informed about its liquidity position stating it has more than \$1.1 billion of available liquidity comprising of \$1 billion of undrawn credit facility and about \$115 million in cash.

Dividend Update

On Mar 18, Cousins Properties announced a cash dividend of 30 cents per share for first-quarter 2020. The dividend was paid on Apr 15, to shareholders of record as of Apr 3, 2020.

Valuation

Cousins Properties' shares have lost 3.9% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance have declined 2.9% and 10.3% over the past year.

The S&P 500 Index has been up 9.9% over the trailing 12-month period.

The stock is currently trading at 12.91X forward 12-month FFO, which compares to 19.03X for the Zacks sub-industry, 17.16X for the Zacks sector and 22.48X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.12X and as low as 8.04X, with a 5-year median of 12.93X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 13.53X FFO.

The table below shows summary valuation data for CUZ.

Valuation Multiples - CUZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.91	19.03	17.16	22.48
	5-Year High	15.12	19.03	17.16	22.48
	5-Year Low	8.04	14.90	11.57	16.14
	5-Year Median	12.93	17.72	14.09	17.54
P/S F12M	Current	7.24	8.21	5.80	3.50
	5-Year High	11.02	8.21	6.69	3.50
	5-Year Low	4.35	6.59	4.98	2.80
	5-Year Median	7.80	7.76	6.24	3.19
P/B TTM	Current	1.15	2.39	2.40	4.25
	5-Year High	1.45	3.01	2.86	4.56
	5-Year Low	0.75	1.80	1.71	3.03
	5-Year Median	1.25	2.66	2.68	4.06

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 47% (120 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alexandria Real Estate Equities, Inc. (ARE)	Neutral	3
Boston Properties, Inc. (BXP)	Neutral	3
Douglas Emmett, Inc. (DEI)	Neutral	3
Highwoods Properties, Inc. (HIW)	Neutral	3
Hudson Pacific Properties, Inc. (HPP)	Neutral	3
Kilroy Realty Corporation (KRC)	Neutral	3
Piedmont Office Realty Trust, Inc. (PDM)	Neutral	3
SL Green Realty Corporation (SLG)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	CUZ	X Industry	S&P 500	ARE	BXP	SLG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	C	D	D
Market Cap	5.24 B	2.07 B	22.58 B	19.07 B	15.07 B	3.96 B
# of Analysts	5	4	14	3	9	7
Dividend Yield	3.40%	4.15%	1.87%	2.73%	4.04%	6.84%
Value Score	D	-	-	D	D	C
Cash/Price	0.03	0.07	0.06	0.03	0.06	0.19
EV/EBITDA	20.65	14.55	12.93	23.59	15.17	14.09
PEG Ratio	3.32	3.65	3.06	5.03	2.74	2.83
Price/Book (P/B)	1.15	1.34	3.09	1.75	1.83	0.73
Price/Cash Flow (P/CF)	12.66	11.21	12.17	20.99	12.48	7.48
P/E (F1)	13.23	15.29	22.17	20.78	13.46	7.60
Price/Sales (P/S)	7.30	5.12	2.41	11.83	5.04	3.17
Earnings Yield	7.73%	6.08%	4.27%	4.81%	7.43%	13.17%
Debt/Equity	0.43	0.92	0.76	0.67	1.47	1.12
Cash Flow (\$/share)	2.79	2.03	7.01	7.20	7.77	6.92
Growth Score	F	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	-6.41%	2.02%	10.87%	7.76%	5.66%	-0.46%
Proj. EPS Growth (F1/F0)	-7.28%	-2.81%	-10.79%	4.50%	2.81%	-2.63%
Curr. Cash Flow Growth	55.56%	3.36%	5.48%	4.79%	-2.18%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	18.86%	12.74%	8.55%	23.85%	2.31%	-0.78%
Current Ratio	1.82	1.83	1.29	0.37	5.59	3.97
Debt/Capital	29.89%	48.50%	44.75%	40.16%	58.89%	50.64%
Net Margin	40.35%	12.85%	10.59%	15.68%	30.83%	27.34%
Return on Equity	6.55%	3.98%	16.26%	2.64%	11.64%	5.89%
Sales/Assets	0.10	0.13	0.55	0.09	0.14	0.09
Proj. Sales Growth (F1/F0)	14.88%	0.00%	-2.61%	0.00%	1.61%	-10.67%
Momentum Score	C	-	-	B	B	F
Daily Price Chg	-0.11%	0.02%	-0.08%	-2.32%	1.52%	1.21%
1 Week Price Chg	14.58%	4.79%	4.60%	4.58%	10.22%	14.36%
4 Week Price Chg	25.00%	15.01%	12.07%	-0.24%	12.98%	10.76%
12 Week Price Chg	30.21%	14.11%	25.17%	10.81%	-13.32%	-13.72%
52 Week Price Chg	-3.97%	-14.64%	0.34%	0.31%	-28.63%	-41.56%
20 Day Average Volume	1,464,439	877,892	2,537,324	877,892	2,114,318	2,475,035
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.34%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.11%	-0.08%	-0.54%	-0.40%	-0.84%
(F1) EPS Est 12 week change	-3.26%	-5.29%	-16.19%	-1.22%	-4.96%	-6.12%
(Q1) EPS Est Mthly Chg	-0.84%	-0.52%	0.00%	-1.11%	-1.33%	0.31%

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	D
Growth Score	F
Momentum Score	C
VGM Score	F

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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