

Cousins Properties (CUZ)

\$41.25 (As of 01/30/20)

Price Target (6-12 Months): **\$44.00**

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:D

Value: D

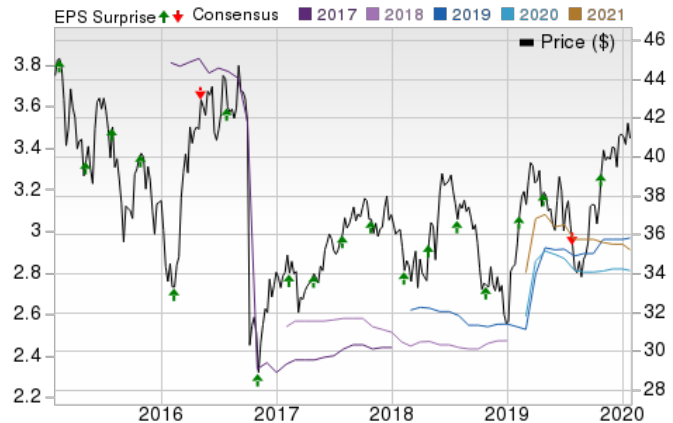
Growth: C

Momentum: D

Summary

Shares of Cousins Properties have outperformed its industry over the past year. Capitalizing on the migration to the Sun Belt region, the company has enhanced its geographic mix. A disciplined balance sheet supports its growth endeavors. Sound fundamentals of Class A office real estate market and job growth in office-using industries are expected to drive net growth and positive net absorption at the company's properties. Last month, the company also entered into a deal to sell office tower, Hearst Tower to Truist Financial Corporation for \$455.5 million. However, higher construction activity in its markets might accelerate supply of office properties, resulting in lesser scope for rent and occupancy growth. Further, a significant development pipeline escalates operational risks and exposes it to rising construction costs.

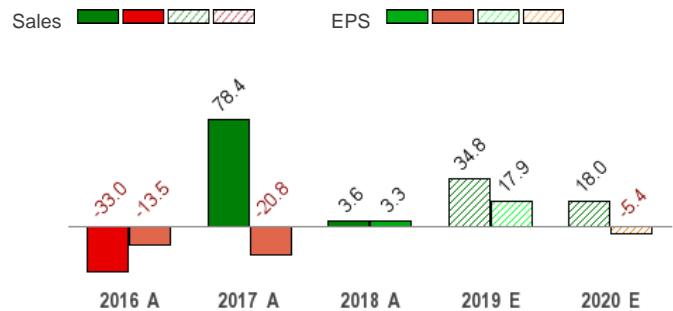
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.95 - \$32.89
20 Day Average Volume (sh)	698,869
Market Cap	\$6.1 B
YTD Price Change	0.1%
Beta	0.89
Dividend / Div Yld	\$1.16 / 2.8%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 35% (165 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	02/05/2020
Earnings ESP	-0.9%
P/E TTM	22.9
P/E F1	14.7
PEG F1	3.7
P/S TTM	10.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	179 E	179 E	180 E	181 E	735 E
2019	123 A	135 A	181 A	184 E	623 E
2018	113 A	114 A	115 A	119 A	462 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.68 E	\$0.70 E	\$0.71 E	\$0.72 E	\$2.81 E
2019	\$0.80 A	\$0.71 A	\$0.72 A	\$0.74 E	\$2.97 E
2018	\$0.60 A	\$0.60 A	\$0.64 A	\$0.68 A	\$2.52 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 01/30/2020. The reports text is as of 01/31/2020.

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 Sep 30, 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 five projects (four office and one mixed-use) under active development.

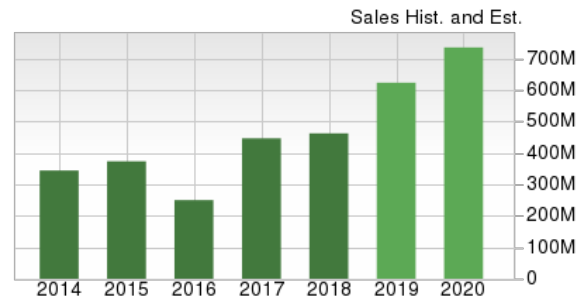
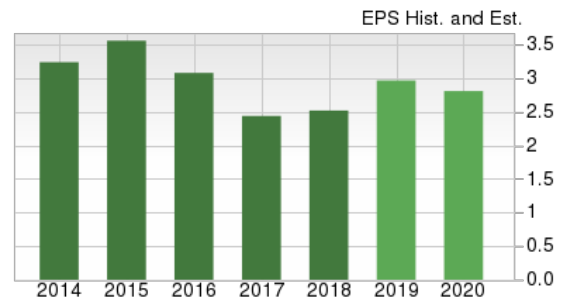
Cousins Properties is enhancing its scale on the back of strategic transactions. This June, it completed the merger with TIER REIT in a 100% stock-for-stock deal. The move has helped create a Sun Belt-focused Class A office REIT, which will likely benefit from improved market scale, and realize operational 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. This trend continued in the first nine months of 2019 as well. Additionally, the company has enjoyed 31 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. Notably, since 2014, the company has completed acquisitions for an aggregate price of around \$943.7 million. Further, it has spent another \$871 million to complete property developments since 2015. 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. Further, the company aims at non-core dispositions in non-core markets to fund its investment opportunities and improve portfolio quality. In line with these efforts, the company has executed dispositions for a gross sale price of around \$1.78 billion since 2014.
- ▲ 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 6 years. Also, as of Sep 30, 2019, the company had the ability to borrow up to \$920 million under its \$1-billion senior unsecured credit facility. 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 outperformed the industry it belongs to in the past year. During this period, shares of the company have rallied 16.5% compared with the industry's growth of 13.4%. Further, the trend in estimate revision for 2019 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 \$427.9 million at the company's share. 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 Sep 30, 2019, Atlanta, Austin and Charlotte contributed 32.2%, 24.4% and 18%, 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 Trumps Q3 FFO & Revenue Estimates

Cousins Properties reported third-quarter 2019 FFO per share (before TIER transaction costs) of 72 cents, surpassing the Zacks Consensus Estimate of 69 cents. Further, the figure came improved 14.3% year over year.

The company's third-quarter 2019 revenue figure recorded year-over-year growth. It also witnessed increase in same-property cash NOI.

Rental property revenues for the quarter came in at \$180.8 million, which compared favorably with the \$115.7 million witnessed in the year-ago quarter. The reported figure also outpaced the Zacks Consensus Estimate of \$175 million.

Quarter in Detail

Cousins Properties executed leases for 741,367 square feet of office space during the September-end quarter. Same-property NOI, on a cash basis, increased 2.9% from the year-ago quarter. Moreover, second-generation net rent per square foot (cash basis) increased 8.1%.

However, weighted average occupancy for the company's same-property portfolio shrunk 100 basis points to 90.9% for the quarter ended Sep 30, 2019.

Cousins Properties exited the third quarter with cash and cash equivalents of around \$12.4 million compared with the \$2.5 million recorded as of Dec 31, 2018.

2019 Outlook

Cousins Properties has raised and narrowed its guidance for the full-year 2019 FFO per share. The company expects FFO per share (excluding transaction costs) in the range of \$2.93 to \$3 compared with the previous guidance of \$2.81 to \$2.93.

The projection for same property net operating income growth (on a cash basis) has been revised to 4-5%, up from 3.25-5.25%. Furthermore, fee and other income is projected at \$35-\$37 million, up from the \$32-\$34 million estimated earlier, due to higher lease termination fees.

2020 Outlook

Cousins Properties also provided its guidance for the full-year 2020 FFO per share. The company expects FFO per share in the \$2.71-\$2.85 band.

Same property net operating income growth (on a cash basis) is projected at 4-6%. Furthermore, fee and other income is anticipated in the range of \$21 million to \$23 million.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	3.33%
EPS Surprise	4.35%
Quarterly EPS	0.72
Annual EPS (TTM)	2.91

Recent News

Cousins Properties to Sell Hearst Tower for \$455.5M – Dec 11, 2019

Cousins Properties announced that Truist Financial Corporation — a merger between BB&T and SunTrust — has exercised its option to acquire the office tower, Hearst Tower, in Uptown Charlotte from the company for \$455.5 million. The transaction is anticipated to close in March 2020, when the property will be used as Truist's headquarters.

Earlier this June, the company signed a 15-year lease with the banks for 561,000 square feet of space at the property. The lease agreement included a one-time purchase option, exercisable through fourth-quarter 2019, for BB&T and SunTrust to acquire the property from Cousins Properties.

Per management, the transaction further confirms Cousins Properties' strategy to own a portfolio of signature office towers in the best urban submarkets throughout the high-growth Sun Belt region.

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 surged 16.5% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 13.7% and 8.7%, over the past year.

The S&P 500 Index has been up 20.5% over the past year.

The stock is currently trading at 14.64X forward 12-month FFO, which compares to 18.38X for the Zacks sub-industry, 14.77X for the Zacks sector and 18.83X 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 13.27X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$44 price target reflects 15.62X FFO.

The table below shows summary valuation data for CUZ.

Valuation Multiples - CUZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.64	18.38	14.77	18.83
	5-Year High	15.57	18.94	16.21	19.34
	5-Year Low	8.74	14.29	12.01	15.16
	5-Year Median	13.27	16.11	13.98	17.45
P/S F12M	Current	8.23	8.28	6.53	3.49
	5-Year High	11.02	8.28	6.61	3.49
	5-Year Low	4.3	5.9	5.2	2.54
	5-Year Median	7.45	6.88	6.04	3
P/B TTM	Current	1.39	2.87	2.81	4.49
	5-Year High	1.5	2.89	2.89	4.55
	5-Year Low	0.91	2.06	1.83	2.85
	5-Year Median	1.33	2.52	2.51	3.62

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 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
VGM Score	D	-	-	D	D	F
Market Cap	6.05 B	2.95 B	23.94 B	20.17 B	22.20 B	7.44 B
# of Analysts	4	4	13	3	10	10
Dividend Yield	2.81%	4.01%	1.77%	2.50%	2.73%	3.81%
Value Score	D	-	-	F	D	D
Cash/Price	0.00	0.03	0.04	0.02	0.04	0.03
EV/EBITDA	27.56	17.74	14.14	26.11	19.24	18.32
PEG Ratio	3.67	3.40	2.01	5.40	2.76	3.30
Price/Book (P/B)	1.39	1.69	3.25	2.10	2.84	1.30
Price/Cash Flow (P/CF)	16.49	14.77	13.56	20.98	18.51	13.41
P/E (F1)	14.63	15.77	18.90	22.30	19.00	12.83
Price/Sales (P/S)	10.34	7.13	2.64	13.78	7.50	6.00
Earnings Yield	6.81%	6.33%	5.28%	4.49%	5.26%	7.80%
Debt/Equity	0.43	0.88	0.72	0.76	1.51	0.98
Cash Flow (\$/share)	2.50	2.27	6.92	7.84	7.76	6.92
Growth Score	C	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	-7.47%	3.10%	10.68%	7.92%	5.23%	-0.14%
Proj. EPS Growth (F1/F0)	-5.31%	4.05%	7.59%	5.78%	7.83%	3.37%
Curr. Cash Flow Growth	-36.00%	12.29%	10.81%	46.47%	-2.38%	-27.69%
Hist. Cash Flow Growth (3-5 yrs)	7.39%	16.89%	8.78%	20.39%	0.61%	-0.78%
Current Ratio	0.64	1.27	1.22	0.37	4.15	1.62
Debt/Capital	29.85%	46.68%	42.99%	42.99%	59.58%	47.41%
Net Margin	9.50%	13.48%	11.69%	9.29%	17.62%	21.83%
Return on Equity	1.55%	4.54%	17.33%	1.63%	6.64%	4.56%
Sales/Assets	0.11	0.13	0.55	0.09	0.14	0.09
Proj. Sales Growth (F1/F0)	17.99%	4.89%	4.12%	NA	2.13%	0.08%
Momentum Score	D	-	-	B	A	B
Daily Price Chg	1.28%	0.00%	0.36%	-0.02%	0.46%	-0.20%
1 Week Price Chg	-1.87%	0.14%	-1.09%	1.08%	1.76%	2.32%
4 Week Price Chg	2.03%	3.51%	-0.22%	2.97%	5.91%	4.41%
12 Week Price Chg	3.57%	2.32%	4.08%	6.89%	4.08%	9.02%
52 Week Price Chg	16.52%	8.07%	16.06%	24.88%	8.89%	0.43%
20 Day Average Volume	698,869	475,465	1,808,632	1,059,758	567,591	754,718
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.09%	0.18%
(F1) EPS Est 4 week change	-0.27%	0.00%	0.00%	0.27%	0.38%	1.87%
(F1) EPS Est 12 week change	-0.07%	-0.07%	-0.09%	-0.81%	0.63%	3.98%
(Q1) EPS Est Mthly Chg	-0.49%	0.00%	0.00%	2.87%	0.19%	0.97%

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	C
Momentum Score	D
VGM Score	D

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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