

Highwoods Properties (HIW)

\$37.62 (As of 04/08/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Highwoods Properties recently announced sale of four office buildings comprising 599,000 square feet in the Poplar corridor submarket of Memphis. The move marked the closing of the first phase of its market-rotation plan which is aimed to fortify its portfolio in BBDs of higher-growth markets such as Charlotte and exit the Greensboro and Memphis markets. The company is well poised to capitalize on favorable demand for office space and a solid balance sheet positions it well to pursue growth endeavors. However, large-scale asset disposition is expected to result in near-term earnings dilution while an extensive development pipeline exposes the company to operational risks. Also, the impact on the economy from the coronavirus pandemic adds to its woes. In addition, shares of Highwoods have underperformed the industry over the past year.

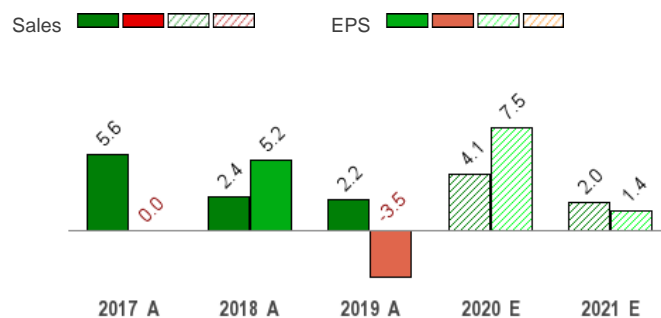
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.76 - \$25.10
20 Day Average Volume (sh)	1,355,576
Market Cap	\$3.9 B
YTD Price Change	-23.1%
Beta	1.05
Dividend / Div Yld	\$1.92 / 5.1%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 38% (95 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	04/28/2020
Earnings ESP	-1.0%
P/E TTM	11.1
P/E F1	10.5
PEG F1	2.6
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	193 E	195 E	196 E	199 E	781 E
2020	194 E	191 E	190 E	191 E	766 E
2019	172 A	184 A	187 A	192 A	736 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.91 E	\$0.90 E	\$0.92 E	\$3.63 E
2020	\$0.89 E	\$0.90 E	\$0.88 E	\$0.90 E	\$3.58 E
2019	\$0.72 A	\$0.87 A	\$0.88 A	\$0.91 A	\$3.33 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 04/08/2020. The reports text is as of 04/09/2020.

Overview

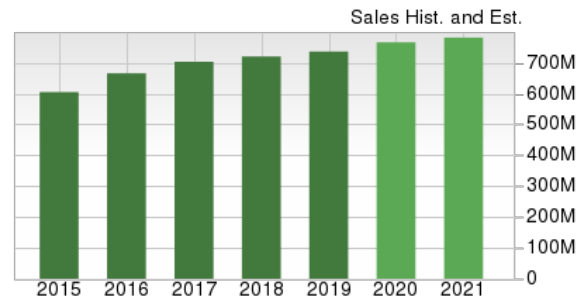
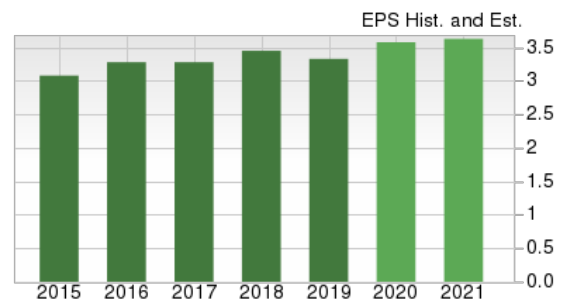
Raleigh, NC-based Highwoods Properties, Inc. is a real estate investment trust (REIT) that owns, develops, acquires, leases and manages office properties. Its core portfolio consists of properties in the best business districts (BBDs) of Atlanta, Charlotte, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa.

The company's long-term strategic plan entails acquisition of high-quality, trophy office buildings in the BBDs of markets that enjoy favorable economic and demographic trends. In August 2019, Highwoods announced a market-rotation plan, per which it aims to fortify its BBD office focus, and exit Greensboro and Memphis, through a two-phased planned departure.

In November, the company entered the Charlotte market through the acquisition of Bank of America Tower. Further, in December, it announced \$89.6 million of office properties sale in Memphis and in January, the company announced \$233.4 million worth of asset sales in Greensboro. Moreover, in March, the company announced sale of four office buildings comprising 599,000 square feet in the Poplar corridor submarket of Memphis. The move marked the closing of the first phase of its market-rotation plan and it finally included selling a select portfolio of assets in Greensboro and Memphis, for a total price of \$428 million since its initial announcement of this two-pronged strategy last August. The rest of the assets will be sold in the second phase, which has no pre-planned schedule.

As of Dec 31, 2019, Highwoods had ownership or interest in 31.7 million rentable square feet of in-service assets as well as 1.2 million rentable square feet of office properties under development. The company also owns nearly 275 acres of development land as of the same date.

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:

- ▲ Highwoods provides comprehensive real estate services to customers and third parties through a fully integrated platform and the company has a well-diversified tenant base that includes several bellwethers. The company's average in-place rent witnessed a CAGR of 3.9% over the past seven years. Further, a large part of its portfolio is concentrated in high-growth Sun Belt markets, which have long-term favorable demographic trends and are expected to continue experiencing above-average job growth. This bodes well for Highwoods' long-term growth.
- ▲ Highwoods has been making concerted efforts to expand its footprint in high-growth markets and improve portfolio quality. In addition, the company is following a disciplined capital-recycling strategy that entails disposing of non-core assets and investing the proceeds in premium asset acquisitions and for undertaking accretive development projects. In sync with this strategy, in August 2019, Highwoods announced a market-rotation plan, per which it aims to fortify its BBD office focus, and exit Greensboro and Memphis, through a two-phased planned departure. In fact, in November, it entered the Charlotte market through the acquisition of Bank of America Tower. Moreover, after announcing asset sales in Memphis and Greensboro in December and January, the company recently announced sale of four office buildings comprising 599,000 square feet in the Poplar corridor submarket of Memphis. The move marked the closing of the first phase of its market-rotation plan. The rest of the assets in Greensboro and Memphis will be sold in the second phase, which has no schedule as of now. The company is also focused on development efforts in key markets. It also placed five developments in service, comprising 900,000 square feet, representing \$300 million of investment, that are a combined 99% occupied. These efforts will strengthen its portfolio and stoke long-term growth.
- ▲ The company already has a strong balance sheet and is trying to lower its leverage further. As of fourth-quarter end, the company's debt had a weighted average maturity of 6.4 years, while unencumbered net operating income stood at 96.5%. The company exited the reported quarter with a net debt-to-EBITDA ratio of 5.2x and a leverage ratio of 39.3%. Though leverage levels increased at year-end following the acquisition of Bank of America Tower and prior to receipt of majority of proceeds from phase one of the market rotation plan, still balance sheet seems healthy. A robust balance sheet, along with capital reaped through debt and equity, including an ATM program, position Highwoods to adequately capitalize on future growth opportunities.
- ▲ In addition, dividend payouts are arguably the biggest enticement for REIT investors and Highwoods has consistently increased its dividend rate. In February 2020, the company increased its quarterly cash dividend to 48 cents per share, resulting in an annualized dividend of \$1.92 per share. This marked a 1.1% increase over the prior quarter's dividend. Notably, the company's dividend has increased at a CAGR of 3% over the past five years. Given the company's financial position compared to that of the industry, this dividend rate is expected to be sustainable.

Highwoods' diversified real estate portfolio, efforts to expand in high-growth markets, non-core assets sale and investing the proceeds for further expansion bode well for long term growth.

Reasons To Sell:

- ▼ Highwoods faces intense competition from developers, owners and operators of office properties as well as other commercial real estates, including sublease space available from its tenants. This restricts its ability to attract and retain tenants at relatively higher rents than its competitors. It also impacts the company's ability to acquire properties at favorable prices. Further, higher development activities across the company's markets will likely result in new supply in the upcoming periods. This will likely impact the occupancy levels of its office properties.
- ▼ The company also has an extensive development pipeline worth \$500 million, which is 77% pre-leased. Although this is encouraging for long-term effect, it exposes the company to various operational risks such as construction cost overruns. In addition, the company is shedding non-core assets to enhance its portfolio mix. Of late the company completed the first phase of its market-rotation plan. This involved selling a select portfolio of assets in Greensboro and Memphis in recent months, for a total price of \$428 million. While dispositions are a strategic fit for long-term growth, the near-term dilutive effect on earnings is unavoidable.
- ▼ The company's assets are mainly concentrated in Atlanta, Nashville, Raleigh, and Tampa. As of Dec 31, 2019, the contribution from these markets to the company's annualized cash revenues were 19.3%, 18.5%, 16.9% and 12.9%, respectively. Hence, any economic or political downturn in these markets might affect Highwoods' performance.
- ▼ Shares of Highwoods have underperformed the industry it belongs to over the past year. During this period, shares of the company have declined 18.5% while the industry fell 15.1%. Moreover, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company as the Zacks Consensus estimate has been revised 1.6% downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the near term.

Near-term earnings dilution on account of large-scale asset dispositions is a concern for Highwoods. Further, an extensive development pipeline exposes the company to higher development costs.

Last Earnings Report

Highwoods Properties Q4 FFO Beats Estimates

Highwoods Properties' fourth-quarter 2019 FFO per share of 91 cents surpassed the Zacks Consensus Estimate of 90 cents. The figure also improved from 86 cents reported in the year-ago period.

Encouraging business conditions across its markets facilitated healthy leasing metrics and Highwoods is also on track with the company's market-rotation plan. Also, backed by its solid cash flow, the company increased the annualized dividend to \$1.92 per share from the \$1.90 paid earlier.

Rental and other revenues of approximately \$192.1 million in the quarter increased 5.9% year over year. However, the reported figure narrowly missed the Zacks Consensus Estimate of \$192.7 million.

For full-year 2019, FFO per share came in at \$3.33, lower than the prior-year tally of \$3.45. Nevertheless, rental and other revenues of nearly \$736 million increased 2.2% year over year.

Quarter in Detail

Highwoods leased 1.2 million square feet of second-generation office space during the fourth quarter, including 398,000 square feet of new leases. Rents were up 19.8% on a GAAP basis and 6.1% on a cash basis.

Highwoods achieved a dollar weighted average term of 6.1 years. Moreover, the company reaped net effective rents of \$18.17 per square foot, 14.3% above the prior five-quarter average.

Same-property cash net operating income (NOI) inched up 1.1% year over year and 2.6%, excluding the effect from Laser Spine's sudden closure. The company ended the October-December quarter with in-service portfolio occupancy of 92.2%.

Notably, the fourth quarter has been a notable one for Highwoods, as the company progressed well with its market-rotation plan aimed to fortify its portfolio in BBDs of higher-growth markets, such as Charlotte, and exit the Greensboro and Memphis markets. Particularly, in the quarter, the company acquired Bank of America Tower at Legacy Union in Charlotte for a total investment of \$436 million. The company also sold \$89.6 million of assets in Memphis, comprising 332,000 square feet with a combined occupancy of 95.6%.

Apart from these, the company acquired a development parcel in Pittsburgh for \$2.5 million and purchased a mixed-use development parcel in Richmond for \$3.3 million.

At the end of the quarter, Highwoods' \$500-million development pipeline is 77% pre-leased on a dollar-weighted basis.

As of Dec 31, 2019, Highwoods had around \$9.5 million of cash and cash-equivalents compared with around \$3.8 million reported as of Dec 31, 2018. The company exited the reported quarter with a net debt-to-EBITDA ratio of 5.18x and a leverage ratio of 39.3%. It did not issue any shares under the ATM program.

Outlook

For 2020, Highwoods expects FFO per share of \$3.60-\$3.72.

The company's full-year outlook is backed by expectations of same-property cash NOI growth of 3.25-4.25% and year-end occupancy of 91-92.3%. Moreover, the company assumes completion of the first phase of its two-phased plan to exit the Greensboro and Memphis markets. In the first phase, the company planned selling a select portfolio of assets in Greensboro and Memphis by mid-2020 for a total sales price that approximates the \$436 million total investment for Bank of America Tower at Legacy Union.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	-0.31%
EPS Surprise	1.11%
Quarterly EPS	0.91
Annual EPS (TTM)	3.38

Recent News

Highwoods' Rotation Plan on Track, Sells Memphis Assets – Mar 31, 2020

Highwoods announced sale of four office buildings comprising 599,000 square feet in the Poplar corridor submarket of Memphis. The move marks the closing of the first phase of its market-rotation plan, which entails exiting the Greensboro and Memphis markets, and fortifying its portfolio in the Best Business Districts ("BBD") of higher-growth markets.

The company sold a select portfolio of assets in Greensboro and Memphis, for a total price of \$428 million since its initial announcement of this two-pronged strategy last August. The amount approximates the company's total investment for Bank of America Tower at Legacy Union in Charlotte made last November.

The buyout marked the company's entry into the CBD Charlotte and an iconic asset addition in a prime infill location in a top-tier submarket, offering the company a solid footing in a higher-growth market and platform to expand its presence. The rest of the assets in Greensboro and Memphis will be sold in the second phase, which has no schedule as of now.

Highwoods Assets Suffers No Damage From Tornado in Nashville - Mar 3, 2020

After conducting a thorough assessment, Highwoods Properties noted that none of its assets have suffered any damage due to Nashville tornado. The assessment includes the company's underway development projects as well.

Dividend Update

On Feb 4, Highwoods increased its quarterly cash dividend to 48 cents per share, resulting in an annualized dividend of \$1.92 per share. This marked a 1.1% increase over the prior quarter's dividend. The increased quarterly dividend was paid on Mar 10, to shareholders of record as of Feb 18, 2020.

Valuation

Highwoods' shares have been down 18.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 15.1% and 22.8% in the past year, respectively.

The S&P 500 index is down 8.1% in the past year.

The stock is currently trading at 10.29X forward 12-month FFO, which compares to 15.05X for the Zacks sub-industry, 11.94X for the Zacks sector and 16.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.47X and as low as 7.70X, with a 5-year median of 13.71X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 10.94X FFO per share.

The table below shows summary valuation data for HIW.

Valuation Multiples - HIW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.29	15.05	11.94	16.99
	5-Year High	16.47	18.1	16.19	19.34
	5-Year Low	7.7	14.32	11.23	15.19
	5-Year Median	13.71	16.01	13.95	17.44
P/S F12M	Current	5.02	6.69	4.93	2.94
	5-Year High	7.88	8.14	6.65	3.44
	5-Year Low	3.76	5.91	4.93	2.54
	5-Year Median	6.52	6.85	6.03	3
P/B TTM	Current	1.82	2.31	1.98	3.54
	5-Year High	2.87	3.01	2.89	4.55
	5-Year Low	1.36	1.8	1.69	2.84
	5-Year Median	2.34	2.51	2.51	3.63

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 253)



Top Peers

Alexandria Real Estate Equities, Inc. (ARE)	Neutral
Boston Properties, Inc. (BXP)	Neutral
Cousins Properties Incorporated (CUZ)	Neutral
Douglas Emmett, Inc. (DEI)	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		
	HIW Neutral	X Industry	S&P 500	ARE Neutral	BXP Neutral	SLG Neutral
VGM Score	D	-	-	D	D	F
Market Cap	3.91 B	1.91 B	19.05 B	18.61 B	15.50 B	3.80 B
# of Analysts	9	4	13	3	9	10
Dividend Yield	5.10%	5.06%	2.23%	2.79%	3.92%	2.42%
Value Score	D	-	-	F	D	D
Cash/Price	0.00	0.04	0.06	0.02	0.05	0.08
EV/EBITDA	13.45	13.20	11.47	22.91	15.37	13.61
PEG Ratio	2.77	3.53	2.00	6.15	4.00	3.91
Price/Book (P/B)	1.82	1.15	2.56	1.78	1.98	0.68
Price/Cash Flow (P/CF)	9.97	9.97	10.14	20.48	12.85	7.04
P/E (F1)	11.14	12.08	16.97	20.49	13.57	6.93
Price/Sales (P/S)	5.31	4.18	2.01	12.15	5.23	3.06
Earnings Yield	9.52%	8.26%	5.81%	4.88%	7.37%	14.43%
Debt/Equity	1.19	0.86	0.70	0.67	1.51	0.97
Cash Flow (\$/share)	3.77	2.05	7.01	7.20	7.77	6.92
Growth Score	C	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	2.80%	2.75%	10.92%	7.84%	5.43%	-0.14%
Proj. EPS Growth (F1/F0)	7.47%	0.91%	-0.64%	3.40%	5.01%	0.46%
Curr. Cash Flow Growth	-1.95%	3.51%	5.93%	4.79%	-2.18%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	4.75%	12.74%	8.55%	23.85%	2.31%	-0.78%
Current Ratio	0.96	1.33	1.24	0.19	4.15	1.62
Debt/Capital	55.18%	46.15%	42.36%	40.07%	59.58%	47.20%
Net Margin	18.52%	15.04%	11.64%	23.72%	17.62%	21.83%
Return on Equity	6.31%	4.47%	16.74%	4.07%	6.64%	4.56%
Sales/Assets	0.15	0.13	0.54	0.09	0.14	0.09
Proj. Sales Growth (F1/F0)	4.07%	1.19%	0.61%	0.00%	2.54%	-2.65%
Momentum Score	D	-	-	D	D	D
Daily Price Chg	5.03%	5.33%	4.33%	6.63%	7.82%	5.50%
1 Week Price Chg	-10.98%	-10.46%	-4.40%	-9.40%	-11.49%	-18.74%
4 Week Price Chg	-7.04%	-11.60%	-1.70%	-2.61%	-17.63%	-28.34%
12 Week Price Chg	-24.18%	-25.70%	-20.64%	-9.15%	-27.25%	-46.31%
52 Week Price Chg	-18.47%	-27.81%	-12.97%	2.50%	-27.81%	-46.86%
20 Day Average Volume	1,355,576	1,355,235	4,016,075	1,395,539	1,796,226	1,708,374
(F1) EPS Est 1 week change	-0.80%	0.00%	-0.26%	-1.14%	-1.25%	-2.31%
(F1) EPS Est 4 week change	-1.91%	-1.86%	-5.64%	-2.62%	-2.93%	-2.89%
(F1) EPS Est 12 week change	-0.49%	-2.58%	-7.49%	-2.53%	-2.49%	-1.42%
(Q1) EPS Est Mthly Chg	-2.17%	-2.08%	-9.90%	-3.78%	-2.89%	-3.42%

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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