

Highwoods Properties (HIW)

\$32.00 (As of 05/13/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

Highwoods is fortifying its Sun Belt-focused portfolio in strategic BBDs of higher-growth markets to capitalize on the favorable demand for office space. The company's better-than-expected results in first-quarter 2020 were supported by healthy same-store net operating income (NOI) growth. However, the company revised its full-year outlook in the wake of the ongoing coronavirus pandemic. Nonetheless, with regard to its rental receipts for April, it collected 96% of its contractually-required rents for the month. A solid balance-sheet position also enables the company to pursue growth endeavors. However, large-scale asset disposition is expected to result in lower revenues, while an extensive development pipeline exposes it to operational risks. In addition, shares of Highwoods have underperformed the industry over the past year.

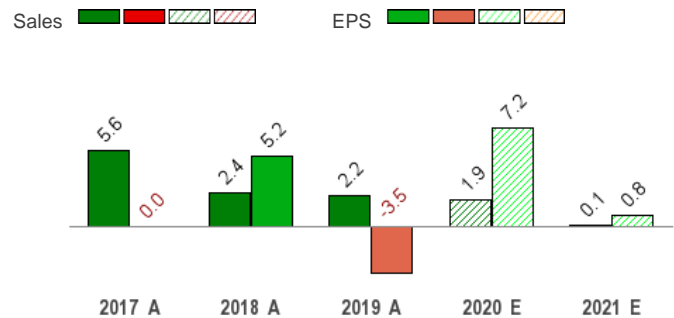
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.76 - \$25.10
20 Day Average Volume (sh)	796,764
Market Cap	\$3.3 B
YTD Price Change	-34.6%
Beta	1.02
Dividend / Div Yld	\$1.92 / 6.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 28% (70 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	07/28/2020
Earnings ESP	0.1%
P/E TTM	8.9
P/E F1	9.0
PEG F1	2.2
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	190 E	191 E	192 E	194 E	751 E
2020	193 A	186 E	186 E	186 E	750 E
2019	172 A	184 A	187 A	192 A	736 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.90 E	\$0.90 E	\$0.91 E	\$3.60 E
2020	\$0.93 A	\$0.89 E	\$0.87 E	\$0.89 E	\$3.57 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 05/13/2020. The reports text is as of 05/14/2020.

Overview

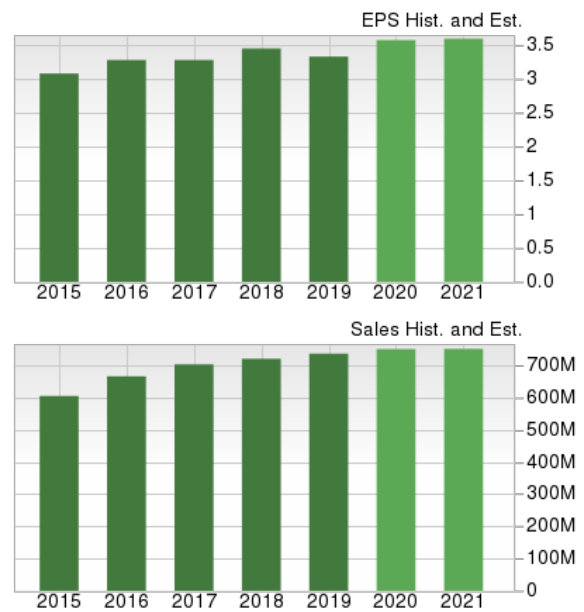
Raleigh, NC-based Highwoods Properties, Inc. is an office real estate investment trust (REIT) that owns, develops, acquires, leases and manages office properties. Its core portfolio consists of properties in the best business districts (BBDs) of Atlanta, Charlotte, Nashville, Orlando, Pittsburgh, Raleigh, 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 2019, 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 2020, 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 Mar 31, 2020, Highwoods had ownership or interest in 28.1 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 owned nearly 250 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 in March. 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. These efforts will strengthen its portfolio and stoke long-term growth.
- ▲ The company has adequate liquidity from cash in hand, cash flows from operating activities and other financing sources to meet short-term liquidity needs. In fact, as of Mar 31, 2020, Highwoods had \$12.7 million of cash and cash-equivalents, and full availability under its \$600-million credit facility. Further, the company is trying to lower its leverage. As of first-quarter end, its net debt-to-EBITDA ratio and leverage declined sequentially to 4.86 and 37.7%, respectively. The company has no debt maturities to address until June 2021. Hence, a robust balance sheet, declining debt-to-capital ratio and strategic capital raises position Highwoods to adequately capitalize on future growth opportunities. In fact, the company has ample resources to fund its development pipeline.
- ▲ 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 its lower dividend payout (as compared to its industry), the company's dividend distribution 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 and hinders its leasing activity. 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. In fact, occupancy in the company's office portfolio declined 110 basis points sequentially to 90.9% at Mar 31, 2020. Going forward, the unfavorable environment is expected to continue amid the COVID-19 pandemic. In fact, the company is expected to witness slow speculative new leasing, impacting rental revenues.
- ▼ 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. In the first quarter, the company sold 3.6 million square feet of assets in Greensboro and Memphis for \$338.4 million. While dispositions are a strategic fit for long-term growth, management anticipates rental and other revenues to be lower for the remaining year as compared to 2019 due to lost revenues from property sales.
- ▼ The company's assets are mainly concentrated in Atlanta, Nashville, Raleigh, and Tampa. As of Mar 31, 2020, the contributions from the markets to the company's annualized cash revenues were 20%, 19.2%, 17.1% and 13.3%, 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 the period, shares of the company have declined 27.8%, while the industry fell 15.8%. 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 moved marginally 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 revenue loss 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 Q1 FFO Top Estimates, Trims View

Highwoods Properties' first-quarter 2020 FFO per share of 93 cents surpassed the Zacks Consensus Estimate of 88 cents. The figure also improved 29.2% from 72 cents reported in the year-ago period.

Rental and other revenues of \$192.8 million in the quarter increased 11.9% year over year. However, the reported figure marginally missed the Zacks Consensus Estimate of \$193.3 million.

The first quarter was notable for the company as it completed the first phase of its two-phased market rotation plan announced on Aug 21, 2019 to exit the Greensboro and Memphis markets and enter the high-growth market of Charlotte.

The company revised its full-year outlook in the wake of the coronavirus pandemic and the prevailing market conditions.

With regard to its rental receipts for April, management informed that it collected 96% of its contractually-required rents for the month with rent deferrals granted to tenants, representing about 1% of its annualized rental revenues.

Due to the ongoing coronavirus pandemic-induced uncertainty, the company halted about \$10-million worth of building improvement projects. Additionally, it expects around \$10-\$20 million of lower tenant improvement costs and lease commissions in 2020 due to slower speculative leasing.

Quarter in Detail

Highwoods leased 893,000 square feet of second-generation office space during the first quarter including 175,000 square feet of new leases. Rents were up 6% on a cash basis.

Same-property cash NOI increased 4% year over year.

The first quarter was productive for Highwoods as the company completed 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. In the quarter, the company sold 3.6 million square feet of assets in Greensboro and Memphis for \$338.4 million. The company generated non-FFO gains of \$152.7 million in connection with these sales.

As of Mar 31, 2020, Highwoods had \$12.7 million of cash and cash-equivalents compared with \$9.5 million reported as of Dec 31, 2019. The company exited the reported quarter with total available cash balance of more than \$600 million and availability of funds under its revolving credit facility, scheduled to mature in January 2022, and a net debt-to-adjusted EBITDA ratio of 4.86. The company has no debt maturities in the next 12 months. For the remainder of 2020, Highwoods expects to fund about \$133 million of its \$500 million for development pipeline.

Guidance

Though the coronavirus pandemic did not leave a meaningful impact on its first-quarter results, the company expects its financials to be impacted in the remaining quarters. As a result, the company has revised its FFO per share guidance to \$3.55-\$3.68 from \$3.60-\$3.72 guided earlier.

The company updated its outlook based on some assumptions. Firstly, it expects its revenues for the remainder of the year from parking and related activities to be \$3-\$8 million lower than the original forecast. Nonetheless, this will be partially offset by about \$3-\$5 million of net operating expense savings.

The company also expects its rental revenues for the remaining year to take a hit to the tune of \$2-4 million from slower speculative leasing, which in turn, is likely to be mitigated by higher renewal activity. Additionally, the company expects general and administrative expenses to be about \$2 million, lower than the initial projection owing to cost-cutting measures.

The company also expects lost rental revenues from customers experiencing financial difficulties due to bankruptcies or default as well as non-cash credit losses of straight line receivables.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	-0.23%
EPS Surprise	5.68%
Quarterly EPS	0.93
Annual EPS (TTM)	3.59

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 BBDs 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 Apr 28, Highwoods announced its first-quarter cash dividend of 48 cents per share, resulting in an annualized payout of \$1.92 per share. The quarterly dividend will be paid out on Jun 8 to its shareholders of record as of May 18, 2020.

Valuation

Highwoods' shares have been down 27.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 15.8% and 21.5%, over the past year, respectively.

The S&P 500 Index is up 0.3% over the past year.

The stock is currently trading at 8.94X forward 12-month FFO, which compares with the 16.23X for the Zacks sub-industry, 14.77X for the Zacks sector and 20.75X for the S&P 500 Index.

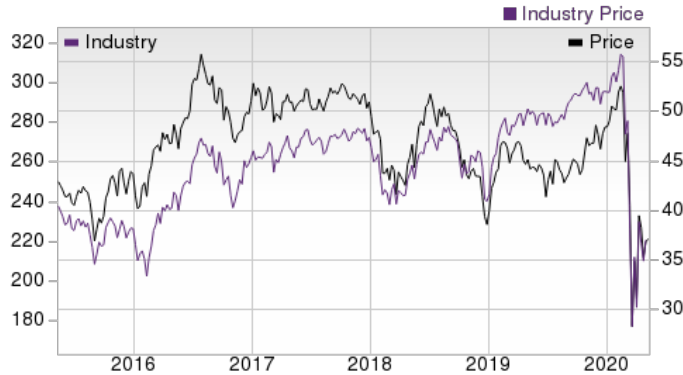
Over the past five years, the stock has traded as high as 16.47X and as low as 7.70X, with a 5-year median of 13.60X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 9.50X FFO per share.

The table below shows summary valuation data for HIW.

Valuation Multiples - HIW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.94	16.23	14.77	20.75
	5-Year High	16.47	18.1	16.18	20.79
	5-Year Low	7.7	14.32	11.58	15.19
	5-Year Median	13.6	16.08	13.94	17.45
P/S F12M	Current	4.43	7.1	5.81	3.24
	5-Year High	7.88	8.14	6.7	3.44
	5-Year Low	3.76	5.91	4.99	2.54
	5-Year Median	6.51	6.88	6.05	3.02
P/B TTM	Current	1.43	2.31	2.03	3.77
	5-Year High	2.87	3.01	2.9	4.55
	5-Year Low	1.36	1.8	1.71	2.84
	5-Year Median	2.33	2.51	2.53	3.65

As of 05/13/2020

Industry Analysis Zacks Industry Rank: Top 28% (70 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alexandria Real Estate Equities, Inc. (ARE)	Neutral	3
Boston Properties, Inc. (BXP)	Neutral	3
Cousins Properties Incorporated (CUZ)	Neutral	3
Douglas Emmett, Inc. (DEI)	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		
	HIW	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	D	-	-	C	B	C
Market Cap	3.32 B	1.64 B	18.76 B	18.10 B	11.62 B	2.92 B
# of Analysts	9	4	14	3	10	7
Dividend Yield	6.00%	5.13%	2.23%	2.87%	5.24%	9.27%
Value Score	C	-	-	F	C	C
Cash/Price	0.03	0.06	0.06	0.03	0.06	0.16
EV/EBITDA	11.73	12.52	11.39	22.71	13.20	12.62
PEG Ratio	2.21	3.28	2.54	5.98	2.11	2.08
Price/Book (P/B)	1.43	1.02	2.56	1.66	1.41	0.54
Price/Cash Flow (P/CF)	8.48	8.56	10.04	19.93	9.62	5.52
P/E (F1)	8.89	12.42	18.48	19.92	10.38	5.57
Price/Sales (P/S)	4.39	3.93	1.91	11.23	3.89	2.34
Earnings Yield	11.16%	7.99%	5.09%	5.02%	9.64%	17.96%
Debt/Equity	1.04	0.92	0.75	0.67	1.47	1.12
Cash Flow (\$/share)	3.77	2.03	7.01	7.20	7.77	6.92
Growth Score	D	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	2.72%	2.38%	10.82%	7.76%	5.66%	-0.46%
Proj. EPS Growth (F1/F0)	7.31%	-2.22%	-10.51%	3.50%	2.82%	-2.04%
Curr. Cash Flow Growth	-1.95%	3.36%	5.83%	4.79%	-2.18%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	4.75%	12.74%	8.52%	23.85%	2.31%	-0.78%
Current Ratio	1.48	1.78	1.27	0.37	5.59	3.97
Debt/Capital	51.60%	48.38%	44.25%	40.16%	58.89%	50.64%
Net Margin	41.50%	14.25%	10.59%	15.68%	30.83%	27.34%
Return on Equity	14.27%	4.04%	16.36%	2.64%	11.64%	5.89%
Sales/Assets	0.15	0.13	0.54	0.09	0.14	0.09
Proj. Sales Growth (F1/F0)	1.92%	0.00%	-2.55%	0.00%	1.61%	-10.67%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	-6.19%	-4.02%	-2.85%	-3.20%	-5.04%	-9.29%
1 Week Price Chg	0.93%	1.44%	3.23%	0.67%	-6.48%	-1.14%
4 Week Price Chg	-15.03%	-7.89%	-0.28%	-5.62%	-24.96%	-25.48%
12 Week Price Chg	-37.73%	-37.39%	-23.80%	-15.21%	-48.38%	-59.33%
52 Week Price Chg	-27.81%	-33.24%	-13.31%	-1.43%	-44.13%	-55.38%
20 Day Average Volume	796,764	791,914	2,552,088	693,265	1,570,246	1,696,657
(F1) EPS Est 1 week change	-0.15%	0.00%	0.00%	0.00%	-0.11%	0.00%
(F1) EPS Est 4 week change	-0.00%	-2.17%	-6.15%	1.99%	-2.34%	-3.42%
(F1) EPS Est 12 week change	-1.88%	-5.59%	-16.21%	-0.68%	-4.76%	-6.22%
(Q1) EPS Est Mthly Chg	-1.48%	-2.67%	-12.28%	1.69%	-4.43%	-9.03%

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	C
Growth Score	D
Momentum Score	C
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.

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.