

## The Macerich Company (MAC)

**\$8.79** (As of 04/14/20)

Price Target (6-12 Months): **\$9.50**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

### Summary

Macerich has withdrawn its 2020 guidance in light of the coronavirus pandemic. The company borrowed \$550 million on its revolving line of credit. Earlier, the company announced a reduction of quarterly dividend to 50 cents per share, payable 20% in cash and 80% in common stock. The move comes as Macerich targets enhancing its financial flexibility amid such rapidly-changing environment. The company has been making efforts to enhance asset quality and customer relationships through redevelopments and the increasing adoption of the omni-channel model, while embracing more experiential retail that is thriving. However, the choppy retail real estate environment with tenant bankruptcies and store closures is expected to affect the company's occupancy level. Moreover, its shares have underperformed the industry in the past year.

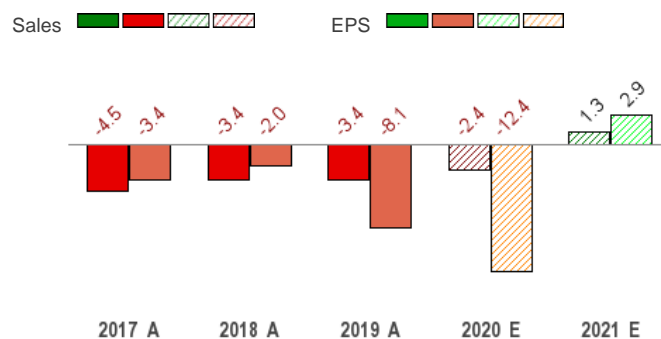
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$43.12 - \$4.81
20 Day Average Volume (sh)	7,705,166
Market Cap	\$1.2 B
YTD Price Change	-67.4%
Beta	1.63
Dividend / Div Yld	\$0.40 / 34.1%
Industry	<a href="#">REIT and Equity Trust - Retail</a>
Zacks Industry Rank	Bottom 42% (148 out of 253)

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



Last EPS Surprise	0.0%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	05/07/2020
Earnings ESP	-1.4%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	230 E	229 E	232 E	239 E	917 E
2020	224 E	221 E	224 E	236 E	905 E
2019	211 A	211 A	214 A	223 A	927 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.78 E	\$0.81 E	\$0.90 E	\$3.19 E
2020	\$0.80 E	\$0.80 E	\$0.81 E	\$0.90 E	\$3.10 E
2019	\$0.81 A	\$0.88 A	\$0.88 A	\$0.98 A	\$3.54 A

\*Quarterly figures may not add up to annual.

P/E TTM	2.5
P/E F1	2.8
PEG F1	1.6
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/14/2020. The reports text is as of 04/15/2020.

## Overview

Founded in 1994 and headquartered in Santa Monica, CA, The Macerich Company is a retail real estate investment trust (REIT) that owns, acquires, leases, manages, develops, and redevelops regional and community shopping centers in high barrier-to-entry markets.

Macerich primarily focuses on the attractive, densely populated markets of the United States. It has notable presence in the West Coast, Arizona, Chicago, and the Metro New York to Washington, DC corridor.

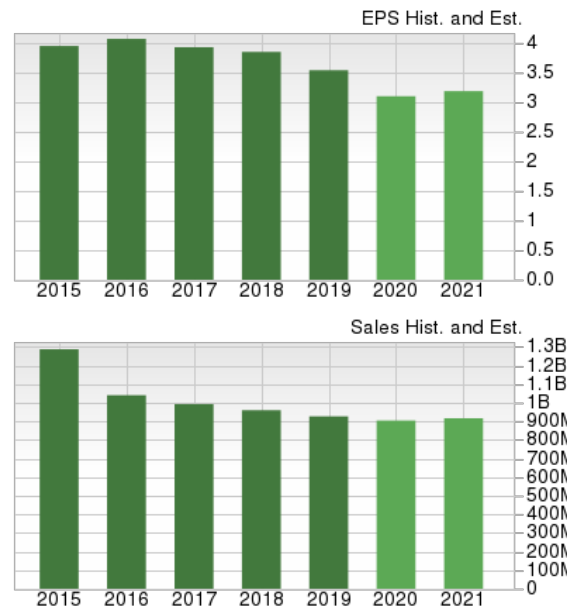
At present, Macerich's real-estate ownership spreads more than 51 million square feet of space, comprising mainly interests in 47 regional shopping centers and five community/ power shopping centers.

In March 2018, Macerich formed a 25/75 joint venture with Hudson Pacific Properties, under which the company agreed to contribute Westside Pavilion — a 680,000-square-foot regional shopping center in Los Angeles, CA — in exchange for \$142.5 million. The company accomplished the sale of the 75% ownership stake in the property to Hudson Pacific Properties in August 2018, which resulted in a gain on sale of assets of \$46.2 million.

Notably, this joint venture with Hudson Pacific Properties is redeveloping One Westside into 584,000 square feet of creative office space, and 96,000 square feet of dining and entertainment space. The entire office space has been leased to Google and is projected to be completed in 2022.

Moreover, the company's 50/50 joint venture with Simon Property Group will develop Los Angeles Premium Outlets in Carson, CA. The first phase will open with an area spanning 400,000 square feet and the second phase will comprise 165,000 square feet.

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.



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## Reasons To Buy:

▲ Macerich has a high concentration of premium malls in vibrant U.S. markets. These properties are located in densely-populated areas, where affluent consumers with significant disposable incomes live, work and play, offering the company solid scope to generate decent cash flows. Over the past 10 years, average base rent increased from \$40.67 to \$61.16 (4.0% CAGR), while sales per square foot increased from \$407 to \$800 (6.5% CAGR). Moreover, since the 2008-2009 recession, the company has maintained an average occupancy of 94%. Also, 87% of the company's net operating income (NOI) comes from market-dominant class A regional malls. The company also has a number of well-capitalized retailers that have fared relatively well in the post-recession environment, where U.S. consumers have become more budget conscious.

Concentration of premium malls in vibrant markets, well-capitalized tenants, adoption of omni-channel model and tempered supply are emerging as Macerich's growth driver for years to come.

▲ Macerich has been focusing on an aggressive capital-recycling program, which involves the divestiture of non-core and slower-growth assets, and usage of the proceeds in higher-growth properties through acquisitions, developments and redevelopment initiatives. In fact, the company raised \$1.8 billion over the past six years through its capital-recycling program, disposing of lesser quality assets in slower-growing, secondary and tertiary markets. Apart from raising capital, the strategic dispositions reduced impending bankruptcy issues across the lower quality disposition portfolio. Meanwhile, the company's joint venture with Hudson Pacific Properties is redeveloping the iconic mall, The Westside Pavilion, in West Los Angeles into a 584,000-square-foot Class A urban creative office campus called One Westside. During third-quarter 2018, the company also announced a 50/50 joint venture with Simon Property Group for creating the Los Angeles Premium Outlets. We expect such moves to offer an upside potential to the company and strengthen its high-end portfolio.

▲ Macerich has been making concerted efforts to enhance its assets quality as well as customer relationships through redevelopment efforts and increasing adoption of the omni-channel model. Through redevelopment, the company is focusing at repurposing properties as well as improving merchandizing mix and shopper experience. Particularly, the company invested \$1.6 billion in 12 major (re)development projects between 2010 and 2019, at a weighted average return on investment of 8.5%. The company is aimed at reduction of exposure to department stores and focusing on enhancing growth prospects by creating a more vibrant portfolio and embracing more diverse uses. It is targeting selling experiences such as art centers, concerts, spas, fitness clubs, food beverage and entertainment uses, as well as focusing on clicks-to-bricks retailers "C2B" and co-working tenants. Also, shift towards re-use and mixed-use properties through recapture and repositioning of anchor tenants remains a key emphasis. These efforts are expected to boost demand for its properties. However, in light of the coronavirus pandemic, the company has substantially reduced its capital expenditures, including the magnitude of its redevelopment investments.

▲ Macerich has a decent balance sheet with well manageable schedule of debt maturities. In 2019, the company completed more than \$2 billion of financings. This was done at an average interest rate of 4% and an average maturity of 9.3 years, netting \$560 million of excess loan proceeds at the company's share. Moreover, amid the uncertain and rapidly-changing environment, Macerich has announced a reduction of quarterly dividend to 50 cents per share, payable 20% in cash and 80% in common stock. The move comes as Macerich targets retaining capital and enhancing its financial flexibility amid such an uncertain environment, while complying with the REIT taxable-income distribution requirements. With the dividend reduction and the stock dividend, the company noted that it will be able to retain incremental cash in excess of \$98 million on a quarterly basis and approximately \$400 million implemented on an annual basis. Additionally, to bolster its liquidity in the wake of the coronavirus pandemic, the company recently borrowed \$550 million on its revolving line of credit. Those proceeds combined with cash already on hand give the company about \$735 million of cash.

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## Reasons To Sell:

- ▼ Mall traffic continues to decline owing to a change in shopping patterns with online purchases taking precedence over in-store purchase. This has forced retailers to reconsider their strategy and shift investments from traditional retailing to online channels and optimize their brick-and-mortar presence. These optimization efforts and the consequent decision to close stores by a number of retailers have raised concerns over cash flows of mall landlords. Also, retailers unable to cope with competition have been filing bankruptcies. This is adversely affecting the demand for retail real estate space and emerged as a pressing concern for retail REITs like Macerich. In fact, the company has been witnessing higher volumes of tenant bankruptcies and these are expected to weigh on Macerich's operating results. Moreover, the recent coronavirus outbreak is likely to keep retail REITs on tenterhooks as consumers are adhering to social distancing and staying indoors. The pandemic is likely to also have an adverse impact on the overall economy which will hurt performance of retail REITs.
- ▼ Macerich has announced a reduction of quarterly dividend to 50 cents per share, payable 20% in cash and 80% in common stock, slated to be paid on Jun 3, to stockholders of record at the close of business on Apr 22, 2020. The company paid a quarterly cash dividend of 75 cents per share for its shareholders in the prior quarter. The move comes as Macerich targets retaining capital and enhancing its financial flexibility amid such an uncertain environment, while complying with the REIT taxable-income distribution requirements.
- ▼ The company has a substantial number of centers positioned across California, New York and Arizona. This geographical concentration risk may weigh upon its earnings in times of economic uncertainty.
- ▼ Shares of Macerich have underperformed the industry it belongs to, in the past year. During this period, shares of the company have plummeted 78.6%, while its industry declined 30.9%. Additionally, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share has been revised 10.1% downward, over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has a limited upside potential.

Declining mall traffic, store closures and retailer bankruptcies emerge as pressing concerns for Macerich. Furthermore, substantial asset concentration in California and Arizona raises its risk.

## Last Earnings Report

### Macerich's Q4 FFO Meets Estimates, Leasing Revenues Beat

Macerich reported fourth-quarter 2019 adjusted FFO per share of 98 cents, in line with the Zacks Consensus Estimate. However, the figure compared unfavorably with the prior-year quarter's \$1.09. Adjusted FFO per share for the quarter excludes financing expense in relation to Chandler Freehold.

The company generated leasing revenues of \$222.6 million in the quarter. The figure surpassed the Zacks Consensus Estimate of \$218.4 million, but slipped 0.8% year over year.

Results reflect decent tenant sales growth and an increase in average rent though occupancy declined.

For the full year, adjusted FFO per share came in at \$3.54, declining from the prior-year tally of \$3.73. Moreover, leasing revenues were down 2.8% year over year to \$858.9 billion.

### Behind the Headlines

As of Dec 31, 2019, the mall portfolio occupancy shrank 140 basis points year over year to 94%. Mall tenant annual sales for the 12-month period ended Dec 31, 2019 increased 10.3% to \$801 per square feet. Leasing volumes for 2019 was up nearly 20% from 2018 volumes. Average rent per square foot rose 3.3% to \$61.06 from \$59.09 as of Dec 31, 2018. Also, same-center net operating income (excluding lease termination income) of, was almost unchanged year-over-year.

Notably, in 2019, Macerich completed more than \$2 billion of financings. This was done at an average interest rate of 4% and an average maturity of 9.3 years, netting \$560 million of excess loan proceeds at the company's share.

Quarter Ending **12/2019**

Report Date	<b>Feb 06, 2020</b>
Sales Surprise	<b>1.92%</b>
EPS Surprise	<b>0.00%</b>
Quarterly EPS	<b>0.98</b>
Annual EPS (TTM)	<b>3.55</b>

## Recent News

### Macerich Withdraws 2020 Guidance on Coronavirus Scare – Mar 27, 2020

Macerich announced that it has withdrawn its 2020 guidance in light of the uncertain situation due to the coronavirus pandemic. The company had earlier projected FFO per share to be in the range of \$3.40-3.50 for the ongoing year.

Also, the company announced some measures to bolster its liquidity and enhance its financial flexibility during these troubled times. The company recently borrowed \$550 million on its revolving line of credit. Those proceeds combined with cash already on hand which results in the company having approximately \$735 million of cash.

### Macerich Cuts Quarterly Dividend, To Pay 20% In Cash And 80% In Common Stock - Mar 16, 2020

Macerich Company has announced a reduction of quarterly dividend to 50 cents per share, payable 20% in cash and 80% in common stock, slated to be paid on Jun 3, to stockholders of record at the close of business on Apr 22, 2020. The company paid a quarterly cash dividend of 75 cents per share for its shareholders in the prior quarter.

The move comes as Macerich targets retaining capital and enhancing its financial flexibility amid such an uncertain environment, while complying with the REIT taxable-income distribution requirements. With the dividend reduction and the stock dividend, the company noted that it will be able to retain incremental cash in excess of \$98 million on a quarterly basis and approximately \$400 million implemented on an annual basis. The company plans to deploy the cash for debt reduction, general corporate needs as well as redevelopment investments.

### Fashion District Philadelphia Reports Encouraging Results – Feb 24, 2020

Fashion District Philadelphia, a joint venture between Macerich and PREIT, informed that they witnessed strong thrust in their operations in the inaugural five months. The joint venture reported that since last September several fashion and prized tenants have opened their stores. Flexible work space provider, Industrious is next in line to open its doors in the space.

## Valuation

Macerich's shares have been down 78.6% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 30.9% and 20.3%, over the past year, respectively.

The S&P 500 Index is down 5.6% over the past year.

The stock is currently trading at 2.81X forward 12-month FFO, which compares with the 10.53X for the Zacks sub-industry, 13.07X for the Zacks sector and 18.03X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.11X and as low as 1.93X, with a 5-year median of 14.65X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$9.50 price target reflects 3.04X FFO.

The table below shows summary valuation data for MAC.

Valuation Multiples - MAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	2.81	10.53	13.07	18.03
	5-Year High	21.11	19.44	16.19	19.34
	5-Year Low	1.93	9.56	11.23	15.19
	5-Year Median	14.65	14.87	13.95	17.45
P/S F12M	Current	1.36	5.77	4.93	3.04
	5-Year High	12.7	13.91	6.65	3.44
	5-Year Low	1.02	5.31	4.93	2.54
	5-Year Median	9.08	8.17	6.03	3.01
P/B TTM	Current	0.44	2.28	2.08	3.65
	5-Year High	2.91	5.57	2.89	4.55
	5-Year Low	0.25	1.77	1.69	2.84
	5-Year Median	2.15	3.39	2.51	3.64

As of 04/14/2020

## Industry Analysis Zacks Industry Rank: Bottom 42% (148 out of 253)



## Top Peers

CBL & Associates Properties, Inc. (CBL)	Neutral
Federal Realty Investment Trust (FRT)	Neutral
Kimco Realty Corporation (KIM)	Neutral
Pennsylvania Real Estate Investment Trust (PEI)	Neutral
Tanger Factory Outlet Centers, Inc. (SKT)	Neutral
Simon Property Group, Inc. (SPG)	Neutral
Taubman Centers, Inc. (TCO)	Neutral
Washington Prime Group Inc. (WPG)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	MAC Neutral	X Industry	S&P 500	FRT Neutral	KIM Neutral	SPG Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>F</b>	<b>D</b>
Market Cap	1.24 B	1.24 B	19.79 B	6.40 B	4.64 B	21.71 B
# of Analysts	7	6	14	9	9	9
Dividend Yield	34.13%	8.70%	2.16%	4.96%	10.44%	12.40%
<b>Value Score</b>	<b>B</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Cash/Price	0.09	0.03	0.06	0.02	0.03	0.03
EV/EBITDA	10.91	11.66	11.74	13.99	12.94	10.83
PEG Ratio	1.38	3.57	2.15	4.11	2.44	1.68
Price/Book (P/B)	0.44	1.05	2.65	2.58	0.92	7.57
Price/Cash Flow (P/CF)	2.79	6.51	10.40	10.76	6.58	6.21
P/E (F1)	2.50	8.25	17.72	13.71	7.49	5.79
Price/Sales (P/S)	1.34	3.64	2.06	6.84	4.00	3.77
Earnings Yield	35.27%	12.14%	5.46%	7.29%	13.33%	17.25%
Debt/Equity	1.88	1.04	0.70	1.41	1.10	8.42
Cash Flow (\$/share)	3.15	2.19	7.01	7.86	1.63	10.91
<b>Growth Score</b>	<b>F</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	-0.98%	1.65%	10.92%	5.05%	-0.59%	6.27%
Proj. EPS Growth (F1/F0)	-12.39%	-2.65%	-2.65%	-2.53%	-2.57%	-2.89%
Curr. Cash Flow Growth	5.81%	0.37%	5.93%	22.11%	-14.81%	-7.76%
Hist. Cash Flow Growth (3-5 yrs)	-2.91%	5.61%	8.55%	12.40%	1.91%	5.60%
Current Ratio	0.84	1.17	1.24	1.22	2.01	1.08
Debt/Capital	65.29%	51.19%	42.36%	58.01%	52.40%	89.33%
Net Margin	10.44%	23.52%	11.64%	37.81%	35.43%	36.52%
Return on Equity	3.28%	6.64%	16.74%	14.77%	7.95%	65.24%
Sales/Assets	0.10	0.13	0.54	0.14	0.10	0.18
Proj. Sales Growth (F1/F0)	5.35%	0.32%	0.00%	1.84%	0.18%	-2.68%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>F</b>	<b>B</b>
Daily Price Chg	0.23%	1.64%	2.56%	1.22%	1.71%	3.75%
1 Week Price Chg	86.17%	33.71%	16.01%	30.68%	39.25%	45.91%
4 Week Price Chg	-2.44%	-2.44%	11.39%	-8.20%	-1.20%	15.10%
12 Week Price Chg	-66.40%	-46.77%	-19.33%	-35.36%	-47.43%	-54.56%
52 Week Price Chg	-78.58%	-40.00%	-11.64%	-36.15%	-38.19%	-61.74%
20 Day Average Volume	7,705,166	2,025,457	3,452,738	859,787	8,127,451	7,416,430
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.01%	-1.00%	0.00%
(F1) EPS Est 4 week change	-8.37%	-2.93%	-6.42%	-4.81%	-3.30%	-5.40%
(F1) EPS Est 12 week change	-12.74%	-5.59%	-8.69%	-5.59%	-4.92%	-7.38%
(Q1) EPS Est Mthly Chg	-3.89%	-0.64%	-11.08%	-4.87%	-2.70%	-2.36%

## 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>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>D</b>
VGM Score	<b>D</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.

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