

The Macerich Company (MAC)

\$23.44 (As of 02/20/20)

Price Target (6-12 Months): **\$25.00**

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: C

Growth: F

Momentum: F

Summary

Macerich's fourth-quarter 2019 adjusted funds from operations (FFO) per share came in line with the Zacks Consensus Estimate, while leasing revenues surpassed estimates. Results reflect decent tenant sales growth and an increase in average rent though occupancy declined. It has been making efforts to enhance asset quality and customer relationships through redevelopments and the increasing adoption of the omni-channel model. Specifically, it is reducing exposure to struggling department stores, while embracing more experiential retail that is thriving. These efforts enable the company to enjoy high mall tenant sales. However, going forward, the choppy retail real estate environment with tenant bankruptcies and store closures is expected to affect the company's occupancy level. Its shares have underperformed the industry in the past year.

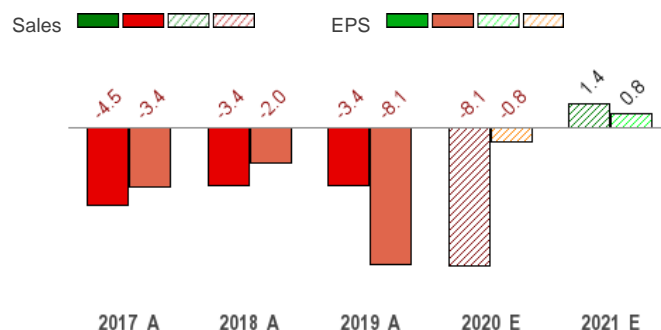
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.73 - \$22.25
20 Day Average Volume (sh)	3,961,897
Market Cap	\$3.3 B
YTD Price Change	-12.9%
Beta	0.77
Dividend / Div Yld	\$3.00 / 12.8%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 13% (221 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-3.2%
Expected Report Date	05/07/2020
Earnings ESP	-2.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	219 E	220 E	222 E	232 E	864 E
2020	214 E	215 E	217 E	227 E	852 E
2019	211 A	211 A	214 A	223 A	927 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.81 E	\$0.83 E	\$0.86 E	\$0.94 E	\$3.54 E
2020	\$0.83 E	\$0.86 E	\$0.88 E	\$0.96 E	\$3.51 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	6.6
P/E F1	6.7
PEG F1	3.7
P/S TTM	3.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/20/2020. The reports text is as of 02/21/2020.

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.

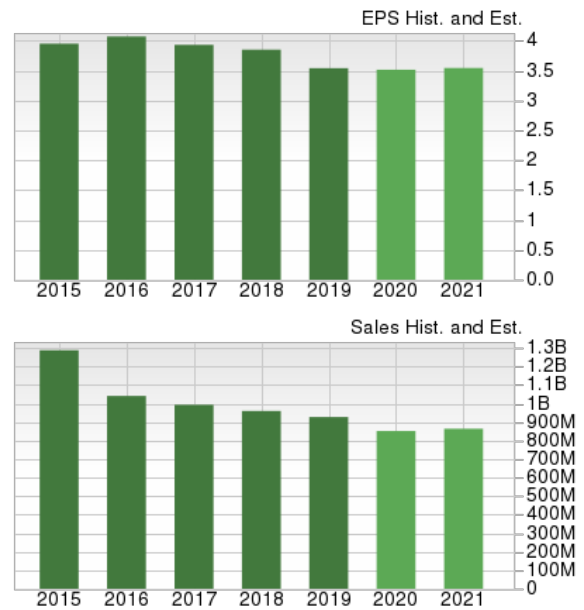
At present, Macerich's real-estate ownership spreads more than 51 million square feet of space, comprising mainly interests in 47 regional shopping centers.

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 last August, 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.

Note*: Certain information will be updated once the company files its latest 10-K.

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:

- ▲ 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.
- ▲ 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 is aiming 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.
- ▲ Macerich has a decent balance sheet with well manageable schedule of debt maturities. 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.
- ▲ Furthermore, solid dividend payouts are arguably the biggest attraction for REIT investors. In fact, the company has an uninterrupted history of dividends payout since its Initial Public Offering in 1994. In October 2018, Macerich announced its quarterly cash dividend of 75 cents per share, reflecting a sequential hike of 1.4% from the prior payout. Subsequently, it has retained the same dividend rate. The company has indeed remained committed to increasing its dividend and its annual dividend has grown from \$2.51 in 2014 to \$2.97 in 2018. The company also paid special dividend of \$2 per share each in 2015 and 2016. Such moves boost investors' confidence in the stock. Given its financial position, the dividend payout is likely to be sustainable.

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.

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.
- ▼ 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.
- ▼ Although interest rate levels are low at present, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout might become less attractive than the yields on fixed income and money-market accounts.
- ▼ Shares of Macerich have underperformed the industry it belongs to, in the past year. During this period, shares of the company have slipped 46.4%, as against the industry's growth of 1.4%. 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 2.5% downward, over the past month. Therefore, given the above-mentioned concerns and negative 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.

Outlook

Macerich provided its guidance for 2020 FFO per share. The REIT expects FFO per share of \$3.40-3.50 for the ongoing year.

Quarter Ending **12/2019**

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

Recent News

Macerich's Scottsdale Fashion Square Sales Witness Growth – Dec 16, 2019

Macerich is experiencing robust demand at Scottsdale Fashion Square. The company announced that the mall's sales jumped 42.7% year over year to \$1,472 per square foot, following its efforts to redevelop and expand the property's luxury wing that was inaugurated in November 2018.

The luxury wing comprises new stores, premium furnishings and finishes, a Swarovski-inspired light column in the Crystal Court, and a wide variety of amenities. The wing, anchored by Neiman Marcus, has a new grand entrance and two-story glass entry. Also, the mall will provide new attractions and first-to-market tenants like Nobu Scottsdale, which will open in spring 2020, and Equinox luxury fitness, opening in 2021.

Michael Guerin, senior vice president of Macerich's Leasing department, said "The stellar sales performance demonstrates the success of our efforts to take Arizona's undisputed luxury leader to the next level, matching the interests of the buoyant luxury sector in Scottsdale and beyond."

Scottsdale Fashion Square has more than 200 shops and restaurants spanning 1.9-million-square-foot of space. The mall has a reputed tenant roster offering various products and services like fashion, accessories, watches, fragrances, electronics, shoes, restaurants, etc. The mall boasts some well-known brands like Burberry, Michael Kors Holdings Limited, Prada, Gucci, Apple Inc., Lululemon, Farmhouse, Zinqué and many more.

Moreover, in the area earlier occupied by Barneys department store, Industrious has opened its first co-working space at Scottsdale Fashion Square. Under the ongoing redevelopment initiatives of the mall, construction of high-end residential units, class A office space and the new Republic Scottsdale hotel has commenced, and are slated to open doors for customers in 2021. The hotel will also include new dining concepts from high-profile chef, Giada De Laurentiis.

Macerich Refinances Kings Plaza With Loan Worth \$540M – Dec 12, 2019

Macerich refinanced Kings Plaza in Brooklyn, NY with a new long-term loan worth \$540 million. The loan, carrying an interest rate of 3.62, is set to mature on Jan 1, 2030.

The former loan was valued at \$427.4 million, with an effective interest rate of 3.67%. It matured on Dec 3, 2019, and was repaid at closing.

Remaining refinancing proceeds were used to repay a portion of the company's revolving line of credit. Notably, as of Sep 30, 2019, the company had \$750 million of additional capacity on its line of credit.

In 2018, the property received a \$110-million overhaul to redevelop the four-floor store, formerly occupied by Sears, with Primark, Zara, JCPenney and Burlington. The redevelopment also included a transformative revamp of the mall's exterior along Flatbush Avenue. This has likely enabled the company to improve property value and retain its relevance amid choppy retail environment. In fact, as of Sep 30, 2019, the shopping center generated \$735 sales per square foot.

Macerich Boosts Tenant Lineup at Scottsdale Fashion Square – Dec 9, 2019

Macerich announced that Versace, one of the leading global fashion design houses, will be opening its first Arizona store at Scottsdale Fashion Square. Set to open in Spring 2020, the store will be located in the mall's luxury wing, adjacent to that of Michael Kors Holdings Limited, and span 3131 square feet of space.

Michael Guerin, senior vice president of Leasing, Macerich, noted, "Versace represents its heritage through innovative and always-glamorous designs, and this inspired brand is a tremendous complement to the curated collection of luxury stores and experiences at Scottsdale Fashion Square. We continue to attract the world's finest global brands to our magnificent property, which is the true home for luxury in Arizona."

Macerich & PREIT's Fashion District Philadelphia to Add Primark and Others - Oct 29, 2019

The joint-venture between PREIT and Macerich — Fashion District Philadelphia — announced that Primark, international fast fashion retailer, will anchor the west end of the project with a high-profile location at the corner of 11th and Market. Further, cosmetic and beauty supply giant Sephora and designer apparel company Kate Spade New York Outlet are joining the tenant roster.

Macerich Leases Former Sears Space to Saratoga Hospital at Wilton Mall - Oct 1, 2019

Macerich announced that Saratoga Hospital has leased more than 56,000 square feet at Wilton Mall, a space previously occupied by Sears. The move will free up space for patient care on the main hospital campus and information systems and other support functions will be the first to relocate from the hospital campus to the mall space. The transfer of staff and services to the mall by Saratoga Hospital is likely to take place in phases.

Notably, the repurposing of the former Sears space for hospital support functions marks an innovative adaptive reuse of retail space. In fact, mall landlords are making concerted efforts to boost their asset productivity by trying to grab attention from new and productive tenants, and disposing the non-productive ones amid the retail apocalypse. The companies are avoiding heavy dependence on apparel and accessories, and rather expanding their dining options, opening movie theaters, offering recreational facilities and opening fitness centers.

Particularly, Macerich is aimed at enhancing its asset quality as well as customer relationships through redevelopment efforts and increasing adoption of the omni-channel model. Through redevelopment, the company is focusing on repurposing properties as well as improving its merchandizing mix and shopper experience.

Dividend Update

On Jan 31, Macerich announced a quarterly cash dividend of 75 cents per share for its shareholders. The dividend will be paid on Mar 3, to

Valuation

Macerich's shares have been down 46.4% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 1.4% and 8.7%, over the past year, respectively.

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

The stock is currently trading at 6.64X forward 12-month FFO, which compares with the 15.09X for the Zacks sub-industry, 14.97X for the Zacks sector and 19.39X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.25X and as low as 6.20X, with a 5-year median of 14.89X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$25 price target reflects 7.08X FFO.

The table below shows summary valuation data for MAC.

Valuation Multiples - MAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.64	15.09	14.97	19.39
	5-Year High	24.25	19.44	16.21	19.39
	5-Year Low	6.2	12.57	12.01	15.18
	5-Year Median	14.89	15.11	14.15	17.47
P/S F12M	Current	3.8	8.35	6.55	3.59
	5-Year High	12.7	13.91	6.65	3.59
	5-Year Low	3.66	7.13	5.39	2.54
	5-Year Median	9.12	8.29	6.04	3
P/B TTM	Current	1.17	3.37	2.85	4.68
	5-Year High	2.91	5.57	2.89	4.68
	5-Year Low	1.11	2.83	1.83	2.85
	5-Year Median	2.16	3.41	2.51	3.62

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (221 out of 255)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	MAC Neutral	X Industry	S&P 500	FRT Neutral	KIM Neutral	SPG Neutral
VGM Score	D	-	-	F	D	F
Market Cap	3.31 B	2.73 B	24.34 B	9.66 B	8.01 B	45.03 B
# of Analysts	8	6	13	9	11	10
Dividend Yield	12.80%	4.93%	1.78%	3.29%	5.91%	5.98%
Value Score	C	-	-	D	D	D
Cash/Price	0.04	0.02	0.04	0.01	0.02	0.02
EV/EBITDA	14.48	16.11	14.18	18.58	14.88	16.09
PEG Ratio	3.76	3.80	2.09	3.76	2.82	2.50
Price/Book (P/B)	1.17	1.92	3.30	3.89	1.62	15.70
Price/Cash Flow (P/CF)	7.74	11.72	13.49	16.24	11.63	13.08
P/E (F1)	6.80	14.40	19.28	19.70	12.70	11.28
Price/Sales (P/S)	3.57	6.58	2.68	10.32	6.91	7.82
Earnings Yield	14.97%	6.94%	5.17%	5.08%	7.86%	8.87%
Debt/Equity	1.98	1.03	0.70	1.41	1.10	8.42
Cash Flow (\$/share)	3.03	2.13	7.03	7.86	1.63	10.74
Growth Score	F	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	-0.98%	2.21%	10.84%	5.05%	-0.59%	6.27%
Proj. EPS Growth (F1/F0)	-0.74%	1.43%	7.09%	2.39%	1.54%	3.48%
Curr. Cash Flow Growth	1.99%	7.57%	6.72%	22.11%	-14.81%	-9.18%
Hist. Cash Flow Growth (3-5 yrs)	-3.71%	7.64%	8.25%	12.40%	1.91%	5.28%
Current Ratio	0.84	1.08	1.22	1.22	NA	1.08
Debt/Capital	66.41%	50.49%	42.37%	58.01%	52.40%	89.33%
Net Margin	10.44%	22.45%	11.56%	37.81%	35.43%	36.52%
Return on Equity	3.28%	5.91%	16.80%	14.77%	7.95%	65.24%
Sales/Assets	0.10	0.13	0.55	0.14	0.10	0.18
Proj. Sales Growth (F1/F0)	-0.80%	1.49%	3.90%	3.09%	0.55%	-0.43%
Momentum Score	F	-	-	F	B	C
Daily Price Chg	-0.13%	1.45%	0.01%	1.59%	2.16%	2.57%
1 Week Price Chg	-2.23%	0.29%	1.65%	-0.62%	-1.83%	-1.49%
4 Week Price Chg	-8.76%	-4.27%	0.36%	-2.61%	-7.29%	-4.56%
12 Week Price Chg	-13.25%	-7.49%	4.39%	-3.59%	-12.47%	-7.07%
52 Week Price Chg	-46.68%	-3.48%	15.29%	-5.06%	7.54%	-22.85%
20 Day Average Volume	3,961,897	804,479	1,992,841	469,173	3,875,063	2,422,971
(F1) EPS Est 1 week change	1.61%	0.00%	0.00%	-0.13%	0.00%	-0.04%
(F1) EPS Est 4 week change	-3.22%	-0.12%	-0.02%	0.08%	-1.16%	-1.68%
(F1) EPS Est 12 week change	-4.55%	-1.41%	-0.17%	-1.68%	-1.69%	-1.77%
(Q1) EPS Est Mthly Chg	-2.82%	0.00%	-0.48%	-0.73%	0.51%	0.33%

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	F
Momentum Score	F
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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