

## Regency Centers Corp. (REG)

**\$62.65** (As of 02/04/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: A

### Summary

Regency Centers' premium quality portfolio of shopping centers, located in robust trade areas, which are characterized with higher spending power, enables it to attract top retailers. Focus on building a premium portfolio of grocery-anchored shopping centers that are usually necessity driven augurs well. Investments in value-accretive developments and buyouts will likely enhance its portfolio quality over the long term. Nevertheless, the company is not immune to the retail real estate industry headwinds. In fact, move-outs, store closures and retailer bankruptcies might affect near-term performance. Furthermore, significant upfront costs involved with the development and redevelopment pipelines might strain margins. Regency Centers' shares too have underperformed the industry it belongs to over the past six months.

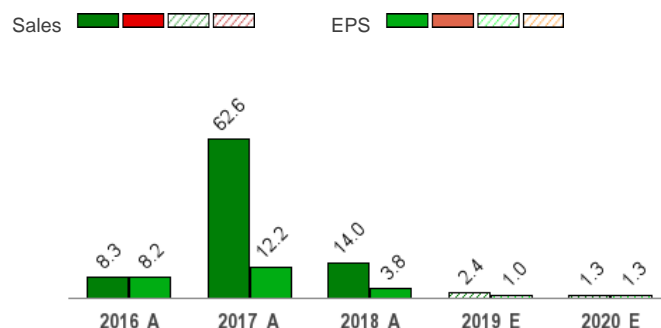
### Price, Consensus & Surprise



### Data Overview

|                            |  |
|----------------------------|--|
| 52 Week High-Low           | <b>\$70.26 - \$60.35</b>                       |
| 20 Day Average Volume (sh) | <b>726,439</b>                                 |
| Market Cap                 | <b>\$10.5 B</b>                                |
| YTD Price Change           | <b>-0.7%</b>                                   |
| Beta                       | <b>0.48</b>                                    |
| Dividend / Div Yld         | <b>\$2.34 / 3.7%</b>                           |
| Industry                   | <a href="#">REIT and Equity Trust - Retail</a> |
| Zacks Industry Rank        | <b>Bottom 13% (221 out of 255)</b>             |

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



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>3.1%</b>       |
| Last Sales Surprise       | <b>2.5%</b>       |
| EPS F1 Est- 4 week change | <b>-0.2%</b>      |
| Expected Report Date      | <b>02/12/2020</b> |
| Earnings ESP              | <b>0.3%</b>       |
| P/E TTM                   | <b>16.1</b>       |
| P/E F1                    | <b>16.0</b>       |
| PEG F1                    | <b>3.9</b>        |
| P/S TTM                   | <b>9.3</b>        |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2020 | 284 E | 283 E | 286 E | 291 E | 1,133 E |
| 2019 | 286 A | 268 A | 282 A | 282 E | 1,118 E |
| 2018 | 270 A | 275 A | 278 A | 277 A | 1,092 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.99 E | \$0.98 E | \$0.98 E | \$1.19 E | \$3.92 E |
| 2019 | \$0.98 A | \$0.95 A | \$0.99 A | \$0.98 E | \$3.87 E |
| 2018 | \$0.96 A | \$0.93 A | \$0.96 A | \$0.98 A | \$3.83 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 02/04/2020. The reports text is as of 02/05/2020.

## Overview

Jacksonville, FL-based Regency Centers Corporation is one of the leading publicly traded retail REIT in the United States. The company's portfolio mainly constitutes of grocery-anchored community and neighborhood centers. It started operating as a publicly traded REIT in 1993.

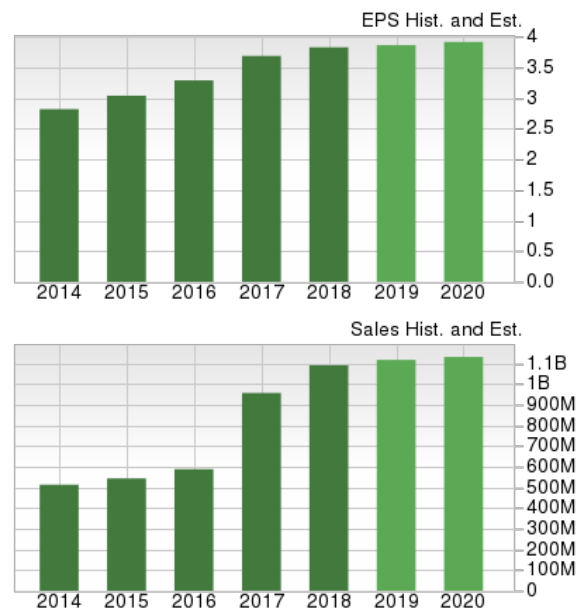
Regency leases space in its shopping centers to grocery stores, major retail anchors, restaurants, side-shop retailers and service providers. This apart, the company also makes ground leasing or selling out-parcels to similar types of tenants.

As of Sep 30, 2019 Regency had full or partial ownership in 422 retail properties, spanning more than 57 million square feet of gross leasable space. The properties are 95.2% leased to around 9,000 tenants.

Moreover, on Mar 1, 2017, Regency announced the closure of the Equity One merger deal. The move created a combined company with a total market capitalization of around \$16 billion. Specifically, Equity One merged with and into Regency, and the surviving entity – Regency Centers – joined the S&P 500 index on Mar 2. This merger created a high-quality portfolio of 429 properties, mainly grocery-anchored, situated in several top markets and provides long-term growth opportunities.

Moreover, in September 2019, Regency Centers announced the acquisition of 120,000-square-foot Circle Marina Center in Long Beach, CA. This off-market buyout marks the company's fifth property owned in Long Beach. Positioned in a high density sub-market, this property is presently 95% leased. It includes 33,000 square feet area of a three-story office building and above-retail office, enjoying proximity to three other Regency shopping centers.

Note: All EPS numbers presented in this report represent funds from operations ("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:

- ▲ Regency primarily focuses on building a premium portfolio of grocery-anchored shopping centers. Such centers are usually necessity driven and drive a dependable traffic. Particularly, the company's premium quality portfolio of shopping centers, located in strong trade areas, which are characterized with higher spending power, enables the company to attract top grocers and retailers. The company has a cluster of industry leading grocers such as Kroger, Safeway and Publix as tenants, which help generate steady rental revenue. Also, the best-in-class operators are opening new locations in high-quality centers. In fact, 80% of its properties are anchored by leading grocers, with grocer sales that average ~\$650 per square foot (PSF) annually compared to the national average of \$450 PSF, demonstrating the locations, relevance of grocers, and stable quality of its centers. This augurs well for steady cash flows and long-term growth.
- ▲ The company has considerable experience in the retail real estate industry. In fact, the company's \$1 billion of development and redevelopment starts, over the last five years, are generating \$550 million in value creation. Furthermore, the company's 2019 estimated starts of +/- \$250 million augur well for long-term growth. Additionally, backed by its capabilities, the company expects to deliver \$1.25-\$1.50 billion in developments and redevelopments at attractive returns, over the next five years. Moreover, the company has resorted to strategic acquisitions in a bid to fortify its portfolio in thriving sub-markets. Such strategic moves are expected to improve the company's portfolio quality and drive long-term growth.
- ▲ Regency enjoys a large pool of unencumbered assets and good relationships with lenders. In fact, as of Dec 31, 2018, 87.7 % of its wholly-owned real estate assets were unencumbered. With a high percentage of such assets and S&P 500 inclusion, the company can enjoy accessibility to secured and unsecured debt markets and maintain availability on the line. Also, Regency currently enjoys BBB+/Baa1 credit rating with positive outlook from S&P and Moody's. Its debt-maturity profile is well laddered with limited near-term maturities. The company also enjoys substantial liquidity and capacity, with \$1.25-billion line of credit.
- ▲ Moreover, the company is well poised to continue future cash flow and dividend growth driven by persistent NOI growth and accretive investments. Its dividend has grown at a compound annual growth rate of 4.5% since 2014 and solid dividend payouts are arguably the biggest attraction for REIT shareholders.
- ▲ Further, the company's strategy is to sell a modest amount lower growth assets will provide free cash flow that can be redeployed for developments and redevelopments, acquisitions with superior growth prospects as well as repurchases of its own stock.

Focus on building a premium portfolio of grocery-anchored shopping centers, which are usually necessity-driven, along with the presence of leading grocers in its tenant roster, augurs well for Regency.

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## Reasons To Sell:

- ▼ The market is witnessing a shift in retail shopping from brick and mortar stores to internet sales. Particularly, the recent effort of online retailers to go deeper into the grocery business has emerged as a concern for this REIT that focuses on building a premium portfolio of grocery-anchored shopping centers. This is because the shift in retail shopping to internet sales is adversely affecting the retail tenants' sales, leading to retailers reconsidering their footprint and opting for store closures, thereby resulting in lesser demand for retail real estate space. Moreover, retailers unable to cope with competition are filing bankruptcies. In fact, move outs, store closures and bankruptcies of retailers are likely to affect the company's performance in the near term. Moreover, it currently expects same-property NOI and core operating earnings growth in 2020 to be flat to slightly positive. This decline in growth is mainly due to elevated impact from bankruptcies including from Barney's, together with additional known and potential move outs for tenants such as IPIC, Dress Barn and Pier 1. Along with that, muted contribution from redevelopments adds to its woes in the near term.
- ▼ Also, at the end of third-quarter 2019, the company had 24 properties in development or redevelopment, indicating estimated net project costs of \$470 million. Although a growing development and redevelopment projects pipeline is encouraging, it exposes the company to various risks such as rising construction costs, entitlement delays and lease-ups. Moreover, such initiatives involve significant upfront costs and drag the margin until the properties get established.
- ▼ Regency operates in a highly fragmented market and faces stiff competition from other retail REITs as well as private real estate developers. In addition, most properties of the company are concentrated in select markets. As of Dec 31, 2018, around 28.1%, 20.1%, and 7.1% of the company's NOI came from consolidated properties, plus pro-rata share from unconsolidated properties located in California, Florida and Texas, respectively. Thus, geographic concentration of Regency's properties exposes it to climatic threats and risks related to market saturation.
- ▼ 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.
- ▼ Over the past six months, shares of Regency have declined 2.4% as against its industry's gain of 2.2%. Moreover, the trend in estimate revisions for current-year FFO per share does not indicate an upbeat outlook for the company. In fact, the 2020 FFO per share estimate has been revised marginally downward over the past month. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential.

Recent efforts of online retailers to penetrate deeper into the grocery business is a major concern for Regency. Further, the company's growing development pipeline exposes it to various risks.

## Last Earnings Report

### Regency Centers' Q3 FFO & Revenues Beat Estimates

Regency Centers' third-quarter 2019 NAREIT FFO per share came in at 99 cents, which exceeded the Zacks Consensus Estimate of 96 cents. The reported figure is also up 3.1% from the prior-year quarter tally.

The quarterly results mirror a rise in revenues, mainly driven by increase in lease income. Also, decent leasing activity and rent spreads aided its performance.

Total revenues in the quarter came in at \$282.3 million, beating the Zacks Consensus Estimate of \$275.4 million. In addition, the figure increased from the year-ago tally of \$278.3 million.

Quarter Ending **09/2019**

| Report Date      | Oct 30, 2019 |
|------------------|--------------|
| Sales Surprise   | 2.51%        |
| EPS Surprise     | 3.13%        |
| Quarterly EPS    | 0.99         |
| Annual EPS (TTM) | 3.90         |

### Inside the Headlines

During the reported quarter, Regency executed around 1.7 million square feet of comparable new and renewal leases, leading to rent spread on new leases and renewal leases of 10% and 5.7%, respectively, with blended rent spreads for the September-end quarter of 6.6%.

As of Sep 30, 2019, the company's wholly-owned portfolio, along with its pro-rata shares of co-investment partnerships, was 94.8% leased. The company's same-property portfolio was 95.2% leased, indicating an expansion of 10 basis points (bps) sequentially, and descend of 80 bps year over year, mainly due to the Sears bankruptcy. However, same-property net operating income, excluding termination fees, climbed 2.1% on a year-over-year basis.

Regency's cash and cash equivalents were \$47.5 million at Sep 30, 2019, up from the \$45.2 million recorded at the end of 2018. The company has fixed charge coverage of 4.3x. Notably, the company sold around \$128.8 million through its ATM equity program in September at a weighted average price per share of \$67.99. Sales were executed on a forward basis and settlement will occur within 12 months.

### Portfolio Activity

During the reported quarter, the company acquired The Pruneyard — a 258,000-square-foot retail center — in Silicon Valley for \$212.5 million. The company also acquired Circle Marina Center — an off-market acquisition of 118,000 square feet of premier retail — located on Pacific Coast Highway in the heart of Long Beach, CA, for \$50 million. Meanwhile, Regency sold one wholly-owned center — Bluebonnet Village — in Baton Rouge, LA, for a gross price of \$14.2 million. Moreover, during the third quarter, Regency commenced three redevelopment projects with combined pro-rata costs of around \$21.5 million.

Also, at the end of third-quarter 2019, the company had 24 properties in development or redevelopment, indicating estimated net project costs of \$470 million. Further, in-process development and redevelopment projects were 89% leased and committed, projected to yield an average return of 7.7%.

### Outlook

Regency has updated its 2019 NAREIT FFO per share outlook, to reflect certain non-recurring items. Particularly, the company now expects 2019 NAREIT FFO per share of \$3.84-\$3.87 compared with the \$3.81-\$3.85 guided earlier.

The company's full-year outlook is backed by same-property NOI growth, excluding termination fees, of 2%.

## Recent News

### Regency Centers Buys Long Beach's Circle Marina Center – Sep 30, 2019

Regency Centers announced the acquisition of 120,000-square-foot Circle Marina Center in Long Beach, CA. This off-market buyout marks the company's fifth property owned in Long Beach.

Positioned in a high density submarket, this property is presently 95% leased. It includes 33,000 square feet area of a three-story office building and above-retail office, enjoying proximity to three other Regency shopping centers.

With solid surrounding demographics, this Pacific Coast Highway property is likely to capture significant business from the affluent neighborhood. Particularly, it has a population of nearly 250,000, with an average home value of \$952,000.

Also, over the last 10 years, the region has lured investors, resulting in substantial amount of new development. In fact, in 2018, Long Beach witnessed more than \$5-billion investment in private/public development. Presently, more than 60 projects are in development.

### Dividend Update

On Oct 29, Regency's board of directors announced a quarterly cash dividend of 58.5 cents per share on its common stock. This dividend was paid on Nov 22, to shareholders of record as of Nov 12, 2019.

## Valuation

Regency's shares have been down 3.3%, over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 0.2% and 6.6%, over the past year, respectively.

The S&P 500 Index has been up 17.8% over the past year.

The stock is currently trading at 15.94X forward 12-month FFO, which compares with the 14.78X for the Zacks sub-industry, 14.56X for the Zacks sector and 18.60X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.25X and as low as 14.31X, with a 5-year median of 17.57X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$66 price target reflects 16.79X FFO.

The table below shows summary valuation data for REG.

| Valuation Multiples - REG |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 15.94 | 14.78        | 14.56  | 18.6    |
|                           | 5-Year High   | 25.25 | 19.44        | 16.21  | 19.34   |
|                           | 5-Year Low    | 14.31 | 12.57        | 12.01  | 15.18   |
|                           | 5-Year Median | 17.57 | 15.12        | 14.07  | 17.46   |
| P/S F12M                  | Current       | 9.23  | 8.13         | 6.53   | 3.45    |
|                           | 5-Year High   | 18.68 | 13.91        | 6.61   | 3.45    |
|                           | 5-Year Low    | 8.53  | 7.13         | 5.39   | 2.54    |
|                           | 5-Year Median | 10.62 | 8.27         | 6.04   | 3       |
| P/B TTM                   | Current       | 1.66  | 3.28         | 2.77   | 4.44    |
|                           | 5-Year High   | 4.75  | 5.57         | 2.89   | 4.54    |
|                           | 5-Year Low    | 1.4   | 2.83         | 1.83   | 2.85    |
|                           | 5-Year Median | 1.76  | 3.42         | 2.51   | 3.62    |

As of 02/04/2020

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



## Top Peers

|   |         |
|---|---------|
| Acadia Realty Trust (AKR)                 | Neutral |
| Brixmor Property Group Inc. (BRX)         | Neutral |
| Federal Realty Investment Trust (FRT)     | Neutral |
| Kimco Realty Corporation (KIM)            | Neutral |
| Retail Properties of America, Inc. (RPAI) | Neutral |
| SITE CENTERS CORP. (SITC)                 | Neutral |
| Urban Edge Properties (UE)                | Neutral |
| Weingarten Realty Investors (WRI)         | Neutral |

| Industry Comparison Industry: Reit And Equity Trust - Retail |             |            |           | Industry Peers |             |             |
|--|-------------|------------|-----------|----------------|-------------|-------------|
|  | REG Neutral | X Industry | S&P 500   | BRX Neutral    | FRT Neutral | KIM Neutral |
| <b>VGM Score</b>   | <b>D</b>    | -          | -         | <b>D</b>       | <b>F</b>    | <b>D</b>    |
| Market Cap   | 10.50 B     | 2.65 B     | 24.31 B   | 6.17 B         | 9.61 B      | 8.20 B      |
| # of Analysts  | 9           | 6          | 13        | 7              | 7           | 11          |
| Dividend Yield   | 3.73%       | 4.86%      | 1.78%     | 5.50%          | 3.30%       | 5.76%       |
| <b>Value Score</b>   | <b>F</b>    | -          | -         | <b>C</b>       | <b>F</b>    | <b>D</b>    |
| Cash/Price   | 0.00        | 0.03       | 0.04      | 0.01           | 0.02        | 0.02        |
| EV/EBITDA  | 20.96       | 15.75      | 13.98     | 12.04          | 22.03       | 15.10       |
| PEG Ratio  | 3.92        | 3.84       | 2.01      | 2.41           | 3.73        | 2.88        |
| Price/Book (P/B)   | 1.66        | 1.94       | 3.29      | 2.24           | 3.98        | 1.66        |
| Price/Cash Flow (P/CF)                                       | 18.12       | 12.14      | 13.58     | 8.92           | 19.34       | 11.92       |
| P/E (F1)   | 16.13       | 13.67      | 18.82     | 10.53          | 19.55       | 12.98       |
| Price/Sales (P/S)  | 9.30        | 6.59       | 2.66      | 5.26           | 10.31       | 7.08        |
| Earnings Yield   | 6.26%       | 7.32%      | 5.30%     | 9.51%          | 5.12%       | 7.72%       |
| Debt/Equity  | 0.65        | 1.05       | 0.71      | 1.76           | 1.42        | 1.10        |
| Cash Flow (\$/share)   | 3.46        | 2.26       | 6.92      | 2.32           | 6.58        | 1.63        |
| <b>Growth Score</b>  | <b>C</b>    | -          | -         | <b>D</b>       | <b>D</b>    | <b>D</b>    |
| Hist. EPS Growth (3-5 yrs)                                   | 7.70%       | 2.21%      | 10.80%    | -0.33%         | 5.36%       | -0.59%      |
| Proj. EPS Growth (F1/F0)                                     | 1.38%       | 1.97%      | 7.40%     | 2.38%          | 2.55%       | 1.80%       |
| Curr. Cash Flow Growth                                       | 17.98%      | 1.20%      | 10.22%    | 7.52%          | -3.92%      | -14.81%     |
| Hist. Cash Flow Growth (3-5 yrs)                             | 20.87%      | 8.35%      | 8.55%     | 10.81%         | 10.61%      | 1.91%       |
| Current Ratio  | 0.95        | 1.02       | 1.21      | 0.50           | 1.52        | NA          |
| Debt/Capital   | 39.34%      | 51.19%     | 42.91%    | 63.75%         | 57.94%      | 52.40%      |
| Net Margin   | 24.71%      | 24.75%     | 11.79%    | 24.75%         | 28.01%      | 35.43%      |
| Return on Equity   | 4.44%       | 5.94%      | 17.24%    | 10.41%         | 11.09%      | 7.95%       |
| Sales/Assets   | 0.10        | 0.13       | 0.55      | 0.14           | 0.15        | 0.10        |
| Proj. Sales Growth (F1/F0)                                   | 1.29%       | 2.24%      | 4.10%     | 1.21%          | 4.04%       | -0.15%      |
| <b>Momentum Score</b>  | <b>A</b>    | -          | -         | <b>D</b>       | <b>B</b>    | <b>A</b>    |
| Daily Price Chg  | 1.18%       | 1.18%      | 1.49%     | 1.82%          | 1.76%       | 1.30%       |
| 1 Week Price Chg   | -2.74%      | -5.24%     | -2.60%    | -5.18%         | -3.69%      | -6.39%      |
| 4 Week Price Chg   | 1.57%       | -1.20%     | 0.51%     | 0.83%          | 1.53%       | -2.02%      |
| 12 Week Price Chg  | -3.33%      | -4.30%     | 4.44%     | -3.72%         | -2.22%      | -6.27%      |
| 52 Week Price Chg  | -3.27%      | -2.11%     | 14.65%    | 16.87%         | -5.19%      | 11.47%      |
| 20 Day Average Volume  | 726,439     | 726,439    | 1,935,862 | 2,672,605      | 378,045     | 3,781,344   |
| (F1) EPS Est 1 week change                                   | 0.00%       | 0.00%      | 0.00%     | 0.00%          | 0.00%       | -0.63%      |
| (F1) EPS Est 4 week change                                   | -0.23%      | -0.23%     | 0.00%     | -0.06%         | -0.36%      | -1.61%      |
| (F1) EPS Est 12 week change                                  | -1.81%      | -1.03%     | -0.10%    | -0.15%         | -2.31%      | -1.39%      |
| (Q1) EPS Est Mthly Chg                                       | 0.20%       | 0.00%      | 0.00%     | -0.34%         | -0.47%      | -1.37%      |

## 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    | F |
| Growth Score   | C |
| Momentum Score | A |
| 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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