Regency Centers Corp. (REG)

$62.41 (As of 01/03/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/12/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: C | Momentum: F	**3-Hold** VGM:F

Summary

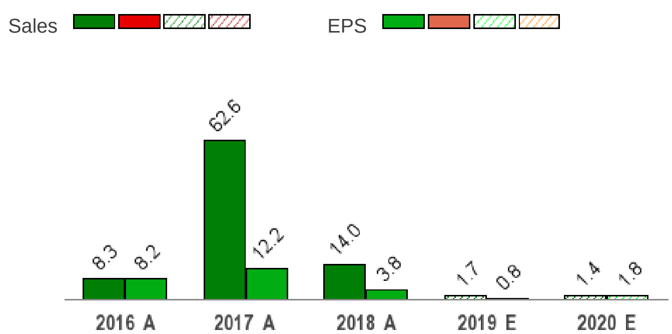
Regency Centers' premium quality portfolio of shopping centers, located in strong trade areas, which are characterized with higher spending power, enables it to attract top retailers. Focus on building a premium portfolio of grocery-anchored shopping centers that are usually necessity driven augurs well. 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 year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$70.26 - $57.07**
20 Day Average Volume (sh)	**889,340**
Market Cap	**$10.5 B**
YTD Price Change	**-1.1%**
Beta	**0.43**
Dividend / Div Yld	**$2.34 / 3.7%**
Industry	**REIT and Equity Trust - Retail**
Zacks Industry Rank	**Bottom 35% (163 out of 252)**
Last EPS Surprise	**3.1%**
Last Sales Surprise	**2.5%**
EPS F1 Est- 4 week change	**-1.0%**
Expected Report Date	**02/12/2020**
Earnings ESP	**0.1%**
P/E TTM	**16.0**
P/E F1	**15.9**
PEG F1	**3.9**
P/S TTM	**9.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	284 E	283 E	286 E	291 E	1,126 E
2019	286 A	268 A	282 A	280 E	1,111 E
2018	270 A	275 A	278 A	277 A	1,092 A

EPS Estimates

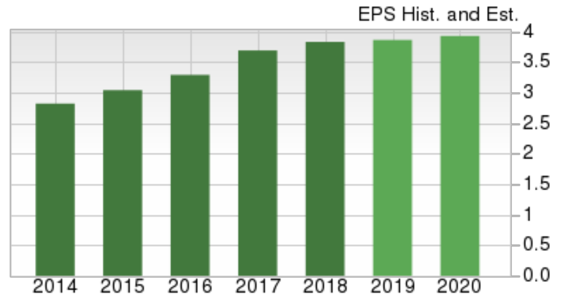
	Q1	Q2	Q3	Q4	Annual*
2020	$0.98 E	$0.98 E	$0.98 E	$1.19 E	$3.93 E
2019	$0.98 A	$0.95 A	$0.99 A	$0.98 E	$3.86 E
2018	$0.96 A	$0.93 A	$0.96 A	$0.98 A	$3.83 A

*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 01/03/2020. The reports text is as of 01/06/2020.

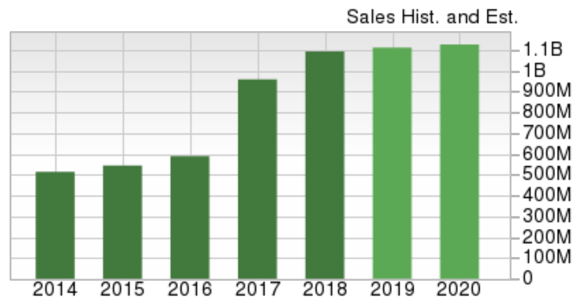
Overview

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.*

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.

> 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.

- 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.

- Over the past year, shares of Regency have appreciated 8.2%, but underperformed its industry's gain of 11.9%. Nonetheless, the trend in estimate revisions for 2019 FFO per share indicates an upbeat outlook for the company. In fact, the 2019 FFO per share estimate has been revised marginally upward over the past month. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has decent upside potential.

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.

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.

- 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.

Last Earnings Report

Regency Centers' Q3 FFO & Revenues Beat Estimates

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

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.

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.

Regency announced CEO Succession Plan – Aug 1, 2019

Regency announced the transition of Martin E. "Hap" Stein, Jr. from chairman and chief executive officer to executive chairman and succession by Lisa Palmer as president and chief executive officer effective Jan 1, 2020.

As part of the company's succession plan, effective Aug 12, 2019, Palmer vacated her role as chief financial officer and retained her position as president, while Mike Mas took the position of executive vice president, chief financial officer, at that time.

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 up 8.2%, over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 11.9% and 16.6%, over the past year, respectively.

The S&P 500 Index has been up 25.7% over the past year.

The stock is currently trading at 15.88X forward 12-month FFO, which compares with the 14.76X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.71X 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 17.71X. 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	15.88	14.76	14.79	18.71
	5-Year High	25.25	19.44	16.21	19.34
	5-Year Low	14.31	12.57	12.01	15.17
	5-Year Median	17.71	15.13	13.98	17.44
P/S F12M	Current	9.28	8.2	6.53	3.47
	5-Year High	18.68	13.91	6.61	3.47
	5-Year Low	8.53	7.13	5.2	2.54
	5-Year Median	10.69	8.29	6.04	3
P/B TTM	Current	1.65	3.31	2.83	4.41
	5-Year High	4.75	5.57	2.89	4.45
	5-Year Low	1.4	2.83	1.83	2.85
	5-Year Median	1.78	3.45	2.5	3.6

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (163 out of 252)

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
VGM Score	F	-	-	C	F	D
Market Cap	10.46 B	2.75 B	23.66 B	6.15 B	9.53 B	8.36 B
# of Analysts	9	6	13	6	7	9
Dividend Yield	3.75%	4.70%	1.79%	5.42%	3.33%	5.65%
Value Score	D	-	-	C	F	D
Cash/Price	0.00	0.03	0.04	0.01	0.02	0.02
EV/EBITDA	20.90	15.87	13.88	12.02	21.89	15.26
PEG Ratio	3.86	3.96	1.99	2.41	4.10	3.17
Price/Book (P/B)	1.65	1.97	3.36	2.23	3.95	1.68
Price/Cash Flow (P/CF)	18.05	12.29	13.62	8.90	19.17	10.33
P/E (F1)	15.90	14.26	18.74	10.49	19.31	13.05
Price/Sales (P/S)	9.26	5.81	2.67	5.24	10.22	7.29
Earnings Yield	6.30%	7.02%	5.32%	9.54%	5.18%	7.67%
Debt/Equity	0.65	1.05	0.72	1.76	1.42	1.09
Cash Flow ($/share)	3.46	2.26	6.94	2.32	6.58	1.92
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	7.70%	2.99%	10.56%	-0.33%	5.36%	-0.12%
Proj. EPS Growth (F1/F0)	1.70%	2.80%	7.41%	2.61%	3.06%	3.56%
Curr. Cash Flow Growth	17.98%	3.10%	14.83%	7.52%	-3.92%	2.71%
Hist. Cash Flow Growth (3-5 yrs)	20.87%	9.77%	9.00%	10.81%	10.61%	9.77%
Current Ratio	0.95	1.06	1.23	0.50	1.52	NA
Debt/Capital	39.34%	51.19%	42.92%	63.75%	57.94%	52.18%
Net Margin	24.71%	24.75%	11.08%	24.75%	28.01%	33.95%
Return on Equity	4.44%	5.94%	17.10%	10.41%	11.09%	7.36%
Sales/Assets	0.10	0.13	0.55	0.14	0.15	0.10
Proj. Sales Growth (F1/F0)	1.36%	2.26%	4.20%	1.38%	4.08%	1.42%
Momentum Score	F	-	-	D	A	A
Daily Price Chg	1.18%	0.74%	-0.61%	-0.58%	0.69%	1.07%
1 Week Price Chg	-0.30%	0.23%	0.13%	0.23%	0.73%	1.12%
4 Week Price Chg	-2.48%	-2.99%	2.60%	-5.10%	-3.83%	-6.51%
12 Week Price Chg	-8.62%	-3.55%	8.87%	1.87%	-6.17%	-3.55%
52 Week Price Chg	9.70%	11.04%	29.34%	45.73%	8.19%	36.15%
20 Day Average Volume	889,340	870,911	1,603,615	1,987,986	350,498	3,283,294
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	0.00%	0.02%	0.00%
(F1) EPS Est 4 week change	-0.98%	0.00%	0.00%	0.02%	-1.40%	-0.07%
(F1) EPS Est 12 week change	-1.64%	-0.54%	-0.57%	0.39%	-2.68%	0.15%
(Q1) EPS Est Mthly Chg	-1.01%	0.00%	0.00%	0.00%	-1.23%	0.00%

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	D
Growth Score	C
Momentum Score	F
VGM Score	F

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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