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Mar 10, 2020

Regency Centers Corp. (REG)

$56.20 (As of 03/09/20)

Price Target (6-12 Months): **$60.00**

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

Summary

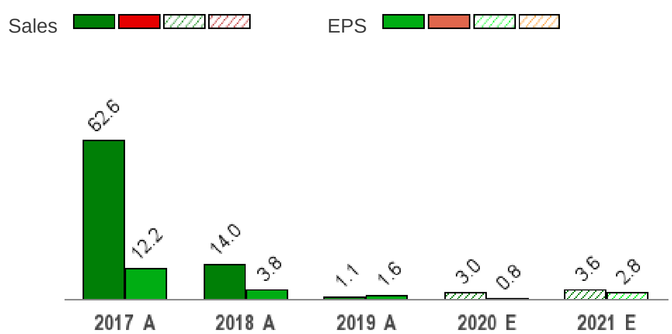
Regency Centers' better-than-expected fourth-quarter 2019 NAREIT funds from operations (FFO) per share reflect decent leasing activity and rent spreads. The company's premium quality portfolio of shopping centers, located in robust trade areas which are characterized by higher spending power, enables 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 the portfolio quality in the long term. Nevertheless, the company is not immune to the retail real estate industry headwinds. Move-outs, store closures and retailer bankruptcies are expected to affect its near-term performance. Its shares have underperformed the industry over the past six months.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$70.26 - $55.45**
20 Day Average Volume (sh)	**1,388,900**
Market Cap	**$9.4 B**
YTD Price Change	**-10.9%**
Beta	**0.55**
Dividend / Div Yld	**$2.38 / 4.2%**
Industry	**REIT and Equity Trust - Retail**
Zacks Industry Rank	**Bottom 18% (207 out of 253)**
Last EPS Surprise	**2.0%**
Last Sales Surprise	**-1.3%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**05/07/2020**
Earnings ESP	**-0.5%**
P/E TTM	**14.3**
P/E F1	**14.3**
PEG F1	**3.5**
P/S TTM	**8.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	289 E	291 E	294 E	299 E	1,178 E
2020	284 E	282 E	284 E	288 E	1,137 E
2019	286 A	268 A	282 A	281 A	1,104 A

EPS Estimates

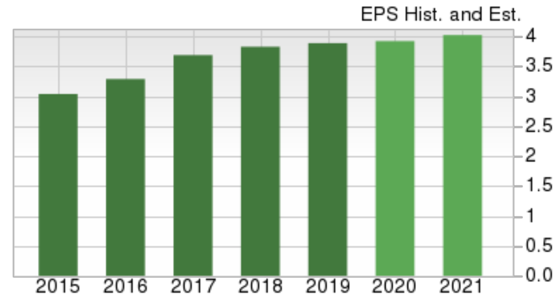
	Q1	Q2	Q3	Q4	Annual*
2021	$0.99 E	$1.00 E	$1.01 E	$1.02 E	$4.03 E
2020	$0.99 E	$0.98 E	$0.98 E	$0.98 E	$3.92 E
2019	$0.98 A	$0.95 A	$0.99 A	$1.00 A	$3.89 A

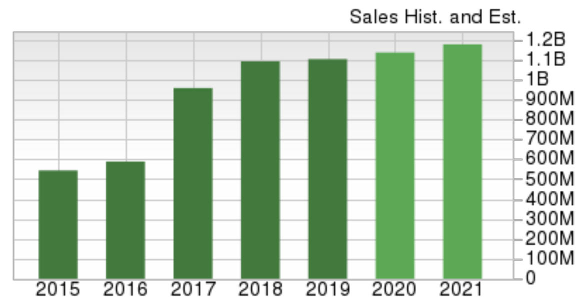
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

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 Dec 31, 2019, Regency had full or partial ownership of 419 properties, spanning more than 52.6 million square feet of gross leasable area (GLA). The company's pro-rata share of this GLA is 42.8 million square feet and the properties are 94.8% 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.

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:

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.

▲ 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 is anchored by leading grocers with grocer sales that average ~$650 per square foot (PSF) annually compared with the national average of $450 PSF, demonstrating the locations, relevance of grocers and the stable quality of its centers. This, in turn, bodes well for steady cash flows and long-term growth.

▲ The company has considerable experience in the retail real estate industry. In 2019, the company initiated more than $250 million of value-added developments and redevelopments. Backed by its capabilities, it remains well poised to achieve its strategic objective to start and complete $1.25-$1.5 billion of projects over the next five years at attractive returns. 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, 2019, 88.6% of its wholly-owned real estate assets were unencumbered. With a high percentage of such assets, 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 the Standard & Poor's and Moody's. Its debt-maturity profile is well laddered.

▲ 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 seen a CAGR of 4% 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.

Reasons To Sell:

> 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.

- 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. Particularly, in 2020, the company anticipates a total same-property NOI impact up to 140 basis points because of bankruptcies and store closures. This includes 60 bps from Barneys, IPIC and Sears as well as up to an additional 80 bps of known and unknown bankruptcy-related move-outs. This apart, muted contribution from redevelopments, on a net basis, considering projects in and out of redevelopments, adds to its woes in the near term.

- At the end of 2019, the company had 22 properties under development or redevelopment, indicating estimated net project costs of $350.8 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, 2019, around 29%, 21%, 6.9%, 5.7% and 5% of the company's NOI came from consolidated properties plus pro-rata share from unconsolidated properties located in California, Florida, Texas, New York and Virginia, 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 18.8% compared with the industry's decrease of 15.3%. 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 two months. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has a limited upside potential.

Last Earnings Report

Regency Centers Q4 FFO Beats Estimates, Revenues Up Y/Y

Quarter Ending	12/2019
Report Date	Feb 12, 2020
Sales Surprise	-1.33%
EPS Surprise	2.04%
Quarterly EPS	1.00
Annual EPS (TTM)	3.92

Regency Centers' fourth-quarter 2019 NAREIT FFO per share of $1.00 surpassed the Zacks Consensus Estimate of 98 cents. The reported figure was 2% higher than the prior-year quarter number.

Quarterly results reflected growth in revenues, driven by an increase in lease income and other property income. Also, decent leasing activity and rent spreads aided performance.

Total revenues in the quarter were $280.9 million, lagging the Zacks Consensus Estimate of $284.7 million. However, the figure increased from the year-ago figure of $277.1 million.

For 2019, NAREIT FFO per share was $3.89, which surpassed the Zacks Consensus Estimate of $3.87. The reported figure was 1.6% higher than the prior-year number. Total revenues were $1.10 billion, missing the Zacks Consensus Estimate of $1.13 billion. However, the figure increased from the year-ago number of $1.09 billion.

Inside the Headlines

During the reported quarter, Regency Centers executed 1.8 million square feet of comparable new and renewal leases, leading to rent spread on new leases and renewal leases of 19.6% and 8.8%, respectively, with blended rent spreads for the December-end quarter of 11.3%.

As of Dec 31, 2019, the company's wholly-owned portfolio along with its pro-rata shares of co-investment partnerships was 94.8% leased. Its same-property portfolio was 95.1% leased. Same-property net operating income, excluding termination fees, increased 1.9% on a year-over-year basis.

Regency Centers' cash and cash equivalents were $115.6 million at Dec 31, 2019, up from $45.2 million recorded at the end of 2018. It has fixed charge coverage of 4.3x.

Portfolio Activity

During the reported quarter, the company sold 3 shopping centers for a total of $58.8 million. Also, it started on phase I of a three-phase redevelopment at Serramonte Center, located south of San Francisco, which included relocating Crunch Fitness to a new outparcel building, the addition of a new Regal theater, and adding several new outparcel restaurants and a new hotel. Notably, phase II commenced in January 2020 and phase III is expected to commence in 2021.

At the end of 2019, the company had 22 properties in development or redevelopment, indicating estimated net project costs of $350.8 million. Further, in-process development and redevelopment projects were 90% leased, projected to yield an average return of 7.3%.

Outlook

Regency Centers expects 2020 NAREIT FFO per share of $3.90-$3.93. The company's full-year outlook is backed by same-property NOI growth, excluding termination fees of 0% or more.

Recent News

Dividend Update

On Feb 4, 2020, Regency Centers' board of directors announced a quarterly cash dividend of 59.5 cents per share on its common stock, denoting an annualized increase of 1.7%. The dividend was paid out on Mar 5 to its shareholders of record as of Feb 24.

Valuation

Regency's shares have been down 12.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 13.1% and 13.9%, over the past year, respectively.

The S&P 500 Index has been down 2.4% over the past year.

The stock is currently trading at 14.28X forward 12-month FFO, which compares with the 12.76X for the Zacks sub-industry, 11.81X for the Zacks sector and 15.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.25X and as low as 14.28X, with a 5-year median of 17.44X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $60 price target reflects 15.25X FFO.

The table below shows summary valuation data for REG.

Valuation Multiples - REG

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.28	12.76	11.81	15.75
	5-Year High	25.25	19.44	16.21	19.34
	5-Year Low	14.28	12.57	11.81	15.18
	5-Year Median	17.44	14.97	13.97	17.42
P/S F12M	Current	8.23	7.13	5.99	2.91
	5-Year High	18.68	13.91	6.64	3.44
	5-Year Low	8.23	7.13	5.39	2.54
	5-Year Median	10.53	8.21	6.04	3
P/B TTM	Current	1.5	2.8	2.23	3.69
	5-Year High	4.75	5.57	2.89	4.56
	5-Year Low	1.4	2.8	1.83	2.85
	5-Year Median	1.75	3.41	2.52	3.63

As of 03/09/2020

Industry Analysis **Zacks Industry Rank:** Bottom 18% (207 out of 253)

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	D	-	-	D	F	D
Market Cap	9.43 B	2.24 B	19.13 B	4.92 B	8.53 B	6.72 B
# of Analysts	9	5.5	13	8	9	11
Dividend Yield	4.23%	5.68%	2.26%	6.91%	3.73%	7.19%
Value Score	F	-	-	C	F	D
Cash/Price	0.01	0.02	0.05	0.01	0.01	0.02
EV/EBITDA	19.93	14.32	11.99	12.39	16.99	15.65
PEG Ratio	3.44	4.15	1.68	2.18	4.36	2.59
Price/Book (P/B)	1.50	1.52	2.64	1.79	3.44	1.33
Price/Cash Flow (P/CF)	16.21	9.71	10.70	8.24	14.34	9.55
P/E (F1)	14.17	11.66	15.44	8.48	17.46	10.43
Price/Sales (P/S)	8.32	5.40	2.05	4.21	9.11	5.80
Earnings Yield	6.98%	8.58%	6.47%	11.82%	5.73%	9.57%
Debt/Equity	0.66	1.04	0.70	1.77	1.41	1.10
Cash Flow ($/share)	3.47	2.19	7.01	2.00	7.86	1.63
Growth Score	B	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	7.27%	1.65%	10.85%	-1.03%	5.05%	-0.59%
Proj. EPS Growth (F1/F0)	0.88%	1.08%	6.25%	1.90%	1.98%	1.54%
Curr. Cash Flow Growth	-0.84%	1.70%	6.09%	-14.31%	22.11%	-14.81%
Hist. Cash Flow Growth (3-5 yrs)	11.14%	5.61%	8.52%	5.61%	12.40%	1.91%
Current Ratio	1.33	1.15	1.24	0.51	1.22	2.01
Debt/Capital	39.71%	50.79%	42.57%	63.92%	58.01%	52.40%
Net Margin	21.22%	23.52%	11.69%	23.52%	37.81%	35.43%
Return on Equity	3.86%	6.53%	16.74%	9.94%	14.77%	7.95%
Sales/Assets	0.10	0.13	0.54	0.14	0.14	0.10
Proj. Sales Growth (F1/F0)	1.71%	0.85%	3.76%	0.81%	2.76%	0.55%
Momentum Score	D	-	-	D	D	B
Daily Price Chg	-7.02%	-9.51%	-7.65%	-9.79%	-7.14%	-10.16%
1 Week Price Chg	5.22%	0.00%	-0.67%	0.44%	4.32%	-0.12%
4 Week Price Chg	-11.91%	-20.91%	-19.26%	-22.64%	-11.93%	-20.96%
12 Week Price Chg	-9.03%	-21.19%	-17.26%	-21.32%	-12.25%	-23.68%
52 Week Price Chg	-12.92%	-18.28%	-6.83%	-4.73%	-15.19%	-11.28%
20 Day Average Volume	1,388,900	1,169,120	2,684,709	3,321,320	684,250	4,485,116
(F1) EPS Est 1 week change	0.03%	0.00%	0.00%	0.00%	-0.12%	0.00%
(F1) EPS Est 4 week change	-0.07%	-0.45%	-0.06%	-1.06%	-0.29%	0.00%
(F1) EPS Est 12 week change	-1.06%	-1.72%	-0.46%	-1.29%	-2.06%	-1.98%
(Q1) EPS Est Mthly Chg	0.70%	-0.40%	-0.40%	-1.28%	-1.39%	0.00%

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	B
Momentum Score	D
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

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