

Regency Centers Corp. (REG)

\$40.65 (As of 08/27/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Regency's premium shopping centers are situated in strong trade areas, with consumers having high spending power. A diversified tenant mix also drives steady rental revenues. Moreover, the presence of grocery stores at its shopping centers usually drives traffic at its properties amid the pandemic-led choppy retail environment. It also enjoys a strong balance sheet and ample liquidity position. Yet, shares of the company have underperformed the industry in the past year. Further, the REIT, which was already battling store closures and bankruptcy woes, has been impacted due to low footfall at its properties amid social-distancing mandates and higher e-commerce adoption. Further, rent relief and deferral requests from its tenants are likely to hurt revenues. Base rent collections for the second quarter and July totaled 72% and 75%, respectively.

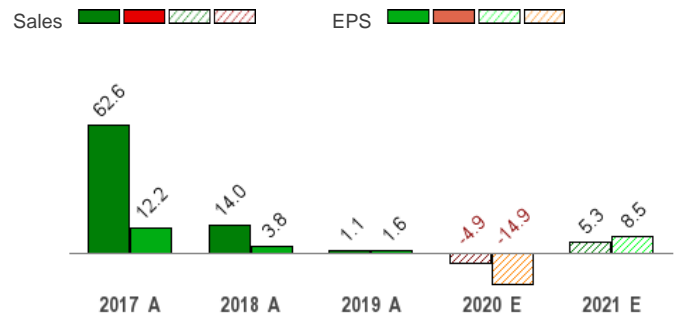
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.13 - \$31.80
20 Day Average Volume (sh)	1,045,650
Market Cap	\$6.9 B
YTD Price Change	-35.6%
Beta	0.88
Dividend / Div Yld	\$2.38 / 5.9%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 4% (243 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-21.8%
Last Sales Surprise	-7.3%
EPS F1 Est- 4 week change	-3.3%
Expected Report Date	11/04/2020
Earnings ESP	-5.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	274 E	276 E	280 E	285 E	1,106 E
2020	284 A	231 A	256 E	265 E	1,050 E
2019	286 A	268 A	282 A	281 A	1,104 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.89 E	\$0.93 E	\$0.95 E	\$3.59 E
2020	\$0.98 A	\$0.61 A	\$0.79 E	\$0.83 E	\$3.31 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.

P/E TTM	11.4
P/E F1	12.3
PEG F1	3.0
P/S TTM	6.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

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.

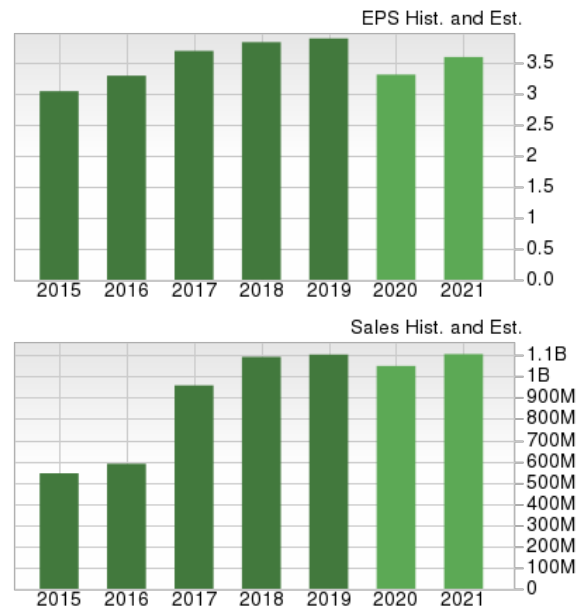
Regency leases space in its shopping centers to grocery stores, major retail anchors, restaurants, side-shop retailers and service providers. This apart, the company also makes ground leasing or selling out-parcels to similar types of tenants.

As of Jun 30, 2020, Regency had ownership of 415 properties, spanning 52.2 million square feet of gross leasable area (GLA). The properties were 93.9% leased as of the same date. The company's pro-rata share of the GLA is 42.4 million square feet.

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 announced the acquisition of 120,000-square-foot Circle Marina Center in Long Beach, CA. This off-market buyout marked the company's fifth property owned in Long Beach. Positioned in a high density sub-market, the property is presently 94.1% 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, is located in strong trade areas, which are characterized with higher spending power, enables the company to attract top grocers and retailers. In fact, 77% (based on pro-rata annual base rent or ABR) of the company's portfolio consists of national and regional tenants. Further, 44% (based on pro-rate ABR) of its portfolio consisted of anchor tenants. This encouraging tenant mix helps the company to generate steady rental revenues. Also, the best-in-class operators are opening new locations in high-quality centers.
- ▲ Further, in these uncertain times, having a grocery component has been saving the grace of retail REITs, and Regency has numerous industry-leading grocers such as Kroger, Albertsons Companies and Publix as tenants. In fact, 80% of its properties are anchored by leading grocers. Further, with a focus on necessity, convenience and value retailers, Regency's portfolio has 43% essential retail and services tenancy. Significant essential retail businesses at the company's centers have enabled its properties to remain open, operating for the entirety of the pandemic. In fact, as of July end, 95% of its tenant operations (based on pro-rate ABR) were open, increasing from around 75% in May.
- ▲ Regency enjoys a large pool of unencumbered assets and good relationships with lenders. In fact, as of Jun 30, 2020, 88.8% 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. Regency currently enjoys BBB+/Baa1 credit rating, with stable outlook from S&P Global and Moody's. The company's debt maturity profile is well-laddered and it has no unsecured debt maturities until 2022.
- ▲ In the wake of the coronavirus pandemic, the company apprised of its liquidity position and the measures undertaken to enhance the same in the uncertain times. During the second quarter, it closed a public offering of \$600 million 3.70% unsecured notes due 2030. Moreover, its liquidity stood at \$1.5 billion as of Aug 3, 2020, consisting of \$290 million in cash balance and \$1.2 billion available under its revolving credit facility. Strong liquidity and the company's robust free cash flows are sufficient to meet its expected near-term capital needs. Further, it had a debt-to-EBITDA ratio of 5.6X as of Jun 30, 2020.

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.

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 physical store 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 result in pricing pressure on base rent and thereby affect the company's revenues in the near term.
- ▼ Furthermore, the escalating number of coronavirus cases forced several retailers to close stores or reduce store hours. Situations have now improved from the start of the pandemic and at the end of July all of the company's properties were open. However, the pandemic has been most impactful for many non-essential businesses that are experiencing significant declines in customer traffic and temporary store closures. This is expected to have a significant adverse impact on the tenants' ability to pay rent obligations. In fact, through Jul 31, 2020, the company collected 72% of second-quarter pro-rata base rent and 75% of July pro-rata base rent. It also granted rent deferrals approximating 5% and 4% of pro-rata minimum base rent for the second quarter and July, respectively. Given the current environment, the trend is likely to continue in the near term.
- ▼ With regards to its investment activity in these volatile times, the company informed that net project costs for its in-process developments and redevelopments amounted to \$190 million as of the second-quarter end. In the near term, it expects to spend \$70 million in its in-process projects and has selectively deferred investments worth \$145 million in light of the virus outbreak. Although a huge development and redevelopment projects pipeline is encouraging, it exposes the company to various risks such as rising construction costs, entitlement delays and lease-ups.
- ▼ 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 of California, Florida, Texas, New York and Virginia, respectively. Thus, geographic concentration of Regency's properties exposes it to risks related to market saturation and climatic threats.
- ▼ Over the past 12 months, shares of Regency have lost 35.8% compared with the industry's decline of 17.9%. Moreover, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company. In fact, 2020 FFO per share estimates have been revised 3.3% downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Dwindling traffic at retail properties, store closures and tenant bankruptcy remain concerns. The coronavirus pandemic and the resultant rent collection issues have added to the company's woes.

Last Earnings Report

Regency Centers Q2 FFO Misses Estimates, NOI Slips

Regency's second-quarter 2020 NAREIT FFO per share of 61 cents missed the Zacks Consensus Estimate of 78 cents. The reported figure was also 35.8% lower than the prior-year quarter's 95 cents.

Evidently, results reflect a decline in same property net operating income (NOI) because of a higher rate of uncollectible lease income in relation to the coronavirus pandemic.

Further, total revenues of \$231.1 million lagged the Zacks Consensus Estimate of \$249.3 million. Further, the top line fell 16.2% year on year.

Notably, 415 properties of the company remained open and operational during the entire pandemic. Roughly 95% of Regency's tenants were open, based on pro-rata ABR as of July-end.

Through Jul 31, 2020, the company collected 72% of second-quarter pro-rata base rent (77% when including executed rent deferral agreements) and 75% of July pro-rata base rent (79% when including executed rent deferral agreements).

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	-7.30%
EPS Surprise	-21.79%
Quarterly EPS	0.61
Annual EPS (TTM)	3.58

Inside the Headlines

During the reported quarter, Regency Centers executed 1.3 million square feet of comparable new and renewal leases with blended rent spreads for the June quarter of 4%.

As of Jun 30, 2020, the company's wholly-owned portfolio along with its pro-rata shares of co-investment partnerships was 93.9% leased. Its same-property portfolio was 94.5% leased. In its same property portfolio, anchor percent leased (includes spaces greater than or equal to 10,000 square feet) was 96.9%, denoting a slip of 20 basis points (bps) sequentially while same property shop percent leased (includes spaces less than 10,000 square feet) was 90.3%, marking a contraction of 110 bps.

Same-property NOI excluding termination fees plunged 20.1% on a year-over-year basis. Results reflect a higher rate of uncollectible lease income pertaining to the coronavirus pandemic.

Portfolio Activity

During the reported quarter, the company completed the sale of its joint venture interest in Kent Place in Denver, CO for \$9.8 million.

As of Jun 30, 2020, the company had \$192.3 million of in-process developments and redevelopments with roughly \$70 million of remaining costs to complete.

Liquidity Update

As of Jun 30, 2020, Regency had a cash balance of nearly \$590 million and no outstanding balance under its \$1.25-billion revolving credit facility. Further, the company had a debt-to-EBITDA ratio of 5.6X as of Jun 30, 2020. It has no unsecured maturities until 2022. During the quarter, the company closed a public offering of \$600 million 3.70% unsecured notes due 2030.

Recent News

Regency Centers' April & May Rent Collections Total 68% & 58% - Jun 1, 2020

Regency issued a business update related to the ongoing COVID-19 pandemic. As of May 31, 2020, pro-rata base-rent collections for April improved to 68% as compared with 62% rent collected through May 5. Additionally, the company announced May rent collections of 58% as of May 31, 2020.

The encouraging rent-collection figures were likely supported by an increase in tenant operations from April to May. In fact, as of May end, around 75% of its tenants (based on pro-rate ABR) were open, increasing from around 60% in April.

Notably, significant exposure to essential retail businesses at the company's centers has not only enabled its properties to remain open, it has also boosted rent collections. Specifically, with a focus on necessity, convenience and value retailers, Regency's portfolio has 43% essential retail and services tenancy. This tenant category has paid 95% and 92% of April and May base rents, respectively.

Moreover, tenants from the essential restaurant category, representing 19% of total ABR have paid 54% and 42% of rents for April and May, respectively.

Dividend Update

On Jul 29, 2020, Regency Centers' board of directors announced a quarterly cash dividend of 59.5 cents per share on its common stock. The dividend was paid out on Aug 24 to its shareholders of record as of Aug 14, 2020.

Valuation

Regency's shares have been down 35.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 17.9% and 6.4%, respectively, over the past year.

The S&P 500 Index has been up 19.3% over the trailing 12-month period.

The stock is currently trading at 11.63X forward 12-month FFO, which compares with the 13.40X for the Zacks sub-industry, 16.64X for the Zacks sector and 23.37X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.25X and as low as 8.26X, with a 5-year median of 16.98X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$43 price target reflects 12.30X FFO.

The table below shows summary valuation data for REG.

Valuation Multiples - REG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.63	13.40	16.64	23.37
	5-Year High	25.25	19.44	16.64	23.37
	5-Year Low	8.26	9.72	11.6	15.25
	5-Year Median	16.98	14.70	14.26	17.58
P/S F12M	Current	6.35	7.32	6.23	3.81
	5-Year High	18.68	13.91	6.67	3.81
	5-Year Low	4.78	5.43	4.97	2.53
	5-Year Median	10.20	8.17	6.06	3.05
P/B TTM	Current	1.11	2.58	2.52	4.71
	5-Year High	4.75	5.57	2.91	4.71
	5-Year Low	0.86	1.77	1.72	2.83
	5-Year Median	1.71	3.33	2.53	3.76

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Kimco Realty Corporation (KIM)	Neutral	3
Retail Properties of America, Inc. (RPAI)	Neutral	4
SITE CENTERS CORP. (SITC)	Neutral	4
Urban Edge Properties (UE)	Neutral	3
Weingarten Realty Investors (WRI)	Neutral	4
Acadia Realty Trust (AKR)	Underperform	5
Brixmor Property Group Inc. (BRX)	Underperform	5
Federal Realty Investment Trust (FRT)	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	REG	X Industry	S&P 500	BRX	FRT	KIM
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	5	5	3
VGM Score	F	-	-	C	F	F
Market Cap	6.90 B	1.45 B	23.67 B	3.56 B	6.16 B	5.14 B
# of Analysts	9	6.5	14	8	9	11
Dividend Yield	5.85%	2.38%	1.64%	0.00%	5.16%	0.00%
Value Score	C	-	-	C	D	C
Cash/Price	0.09	0.11	0.07	0.10	0.16	0.04
EV/EBITDA	16.03	11.65	13.33	10.84	13.91	13.41
PEG Ratio	2.94	6.19	3.05	NA	11.70	8.26
Price/Book (P/B)	1.11	1.08	3.18	1.33	2.60	0.91
Price/Cash Flow (P/CF)	11.72	6.37	12.81	5.99	10.36	7.29
P/E (F1)	12.13	9.91	21.68	7.39	16.15	9.91
Price/Sales (P/S)	6.35	3.59	2.50	3.19	6.99	4.64
Earnings Yield	8.14%	10.10%	4.43%	13.50%	6.19%	10.10%
Debt/Equity	0.73	1.09	0.74	1.98	1.91	0.95
Cash Flow (\$/share)	3.47	2.19	6.94	2.00	7.86	1.63
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	5.57%	-0.36%	10.41%	-2.67%	3.28%	-1.49%
Proj. EPS Growth (F1/F0)	-14.97%	-16.38%	-4.94%	-14.98%	-20.36%	-18.49%
Curr. Cash Flow Growth	-0.84%	0.37%	5.22%	-14.31%	22.11%	-14.81%
Hist. Cash Flow Growth (3-5 yrs)	11.14%	5.61%	8.50%	5.61%	12.40%	1.91%
Current Ratio	3.45	2.29	1.35	1.43	4.82	2.01
Debt/Capital	42.15%	52.55%	43.86%	66.45%	64.97%	48.86%
Net Margin	8.43%	17.83%	10.25%	18.97%	31.57%	93.11%
Return on Equity	1.46%	4.88%	14.66%	7.80%	11.47%	20.23%
Sales/Assets	0.10	0.12	0.50	0.13	0.12	0.10
Proj. Sales Growth (F1/F0)	-6.08%	-7.72%	-1.43%	-7.69%	-7.76%	-9.65%
Momentum Score	F	-	-	A	C	D
Daily Price Chg	1.37%	1.85%	0.43%	3.00%	2.06%	2.68%
1 Week Price Chg	-5.64%	-5.64%	-1.45%	-6.44%	-1.91%	-4.59%
4 Week Price Chg	-2.77%	1.50%	3.75%	1.87%	5.73%	5.79%
12 Week Price Chg	-18.39%	-15.88%	3.95%	-16.08%	-14.11%	-16.98%
52 Week Price Chg	-36.91%	-37.43%	2.75%	-34.53%	-37.14%	-35.54%
20 Day Average Volume	1,045,650	953,906	1,887,168	2,208,513	639,203	4,407,197
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.32%	0.00%	0.79%	-2.11%	-5.91%	1.46%
(F1) EPS Est 12 week change	-4.55%	-6.50%	3.43%	-7.02%	-13.94%	-8.81%
(Q1) EPS Est Mthly Chg	2.19%	0.00%	0.00%	-2.39%	-6.28%	3.62%

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	C
Growth Score	F
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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