

## SL Green Realty Corp. (SLG)

**\$38.64** (As of 05/19/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/12/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

### Summary

SL Green, National Pension Service of Korea (NPS) and Hines recently formed a joint-venture partnership at One Madison Avenue through the sale of a 49.5% stake in the property to NPS and Hines. It has also struck a deal to sell its recently-repositioned 609 Fifth Avenue retail condominium for \$168 million. Amid the coronavirus crisis, the company expects to face headwinds like slowdown in leasing activities, reduced market rents and lower collections in its owned properties. It aims to bolster liquidity position to \$1 billion through various efforts. Also, in the first three weeks of the second quarter, it has inked 12 leases totaling 107,325 square feet of office space. Yet, shares of SL Green have underperformed its industry over the past year. High supply of office properties and geographic concentration of assets in Manhattan remain concerns.

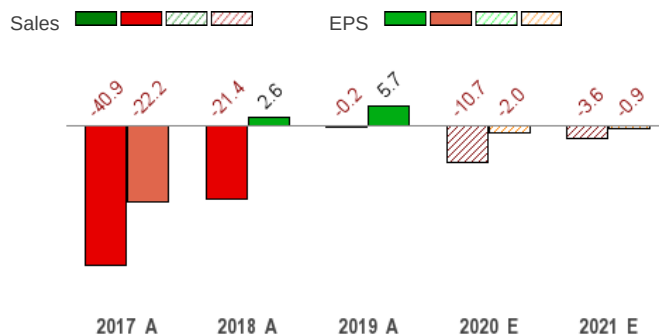
### Price, Consensus & Surprise



### Data Overview

|                            |                                               |
|----------------------------|-----------------------------------------------|
| 52 Week High-Low           | \$96.39 - \$35.16                             |
| 20 Day Average Volume (sh) | 1,983,718                                     |
| Market Cap                 | \$3.0 B                                       |
| YTD Price Change           | -58.0%                                        |
| Beta                       | 1.69                                          |
| Dividend / Div Yld         | \$3.54 / 9.2%                                 |
| Industry                   | <a href="#">REIT and Equity Trust - Other</a> |
| Zacks Industry Rank        | Top 31% (80 out of 254)                       |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 22.4%      |
| Last Sales Surprise       | -8.4%      |
| EPS F1 Est- 4 week change | -2.7%      |
| Expected Report Date      | 07/15/2020 |
| Earnings ESP              | -1.4%      |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 185 E | 186 E | 187 E | 188 E | 743 E   |
| 2020 | 195 A | 184 E | 183 E | 185 E | 771 E   |
| 2019 | 213 A | 216 A | 215 A | 219 A | 863 A   |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.60 E | \$1.66 E | \$1.72 E | \$1.72 E | \$6.80 E |
| 2020 | \$2.08 A | \$1.58 E | \$1.59 E | \$1.62 E | \$6.86 E |
| 2019 | \$1.68 A | \$1.82 A | \$1.75 A | \$1.75 A | \$7.00 A |

\*Quarterly figures may not add up to annual.

|         |     |
|---------|-----|
| P/E TTM | 5.2 |
| P/E F1  | 5.6 |
| PEG F1  | 1.5 |
| P/S TTM | 2.4 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/19/2020. The reports text is as of 05/20/2020.

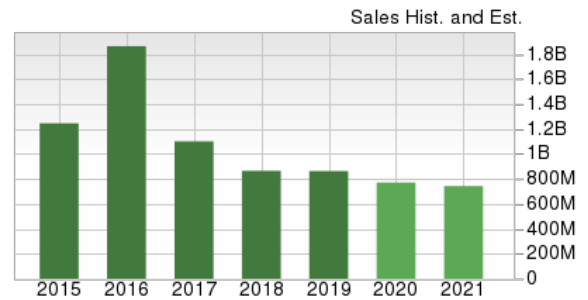
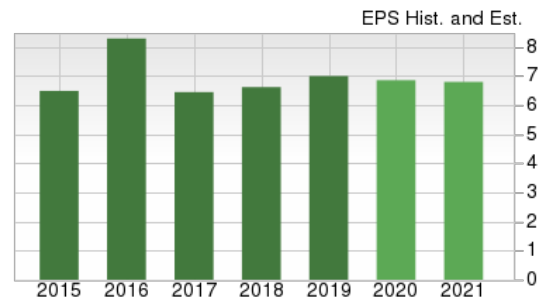
## Overview

SL Green Realty Corp. dominates the office real estate market of New York. The real estate investment trust (REIT) was founded in 1997 and primarily acquires, manages, develops and leases commercial office properties in the New York Metropolitan area, especially midtown Manhattan. This S&P 500 company also makes investments in Brooklyn, Westchester County and Connecticut. These assets are jointly called the Suburban properties.

Moreover, of late, SL Green is seeking to tap opportunities in New York City's premium retail locations with its retail investments complementing its core office and structured finance businesses. The company has two reportable segments — real estate and debt and preferred equity (DPE) investments.

As of Mar 31, 2020, SL Green had interests in 102 buildings, covering 49.4 million square feet of space. This comprised ownership interests in Manhattan properties, spanning more than 28.8 million square feet of area, and debt and preferred equity investments collateralized by assets spread in more than 19.6 million square feet of area.

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:

- ▲ SL Green has a mono-market strategy focus with an enviable footprint in the large and high-barrier to entry New York real estate market. This, along with ownership of premier Manhattan office assets, has enabled the company to enjoy high occupancy at its portfolio. Additionally, the company aims at maintaining a diversified tenant base to hedge the risk associated with dependency on single-industry tenants. As a result, its largest tenants include renowned firms from different industries. Moreover, with long-term leases to tenants with strong credit profile, the company is well poised to generate stable rental revenues over the long term.
- ▲ SL Green has been following an opportunistic investment policy to enhance its overall portfolio. This includes divesting its non-core assets in a tax-efficient manner and using the proceeds to fund development projects and share buybacks. The company has completed majority of its sub-urban asset sale. This has helped the company narrow its focus on the Manhattan market, as well as retain premium and highest-growth assets in the portfolio. The company intends to continue with the same strategy in the current year. Further, the company aims to shrink its DPE balance in the upcoming period. While these balances have been used to repay the company's line of credit, fund share buybacks and focus on ground-up development activities; the active sales and repayment of existing positions will increase cash balances in the immediate term. Such match-funding initiatives indicate the company's prudent capital-management practices and will relieve pressure from its balance sheet.
- ▲ The company has decent balance-sheet strength and financial flexibility. In fact, its fixed charge coverage ratio and debt service coverage ratio has been improving over the previous five quarters, indicating higher cash flows available for debt repayment. As of Mar 31, 2020, consolidated fixed-charge coverage and consolidated debt service coverage was 2.77x and 3.39x, respectively. Also, the company has no significant debt maturities until 2021. Furthermore, amid the coronavirus outbreak-led uncertainties, it has been aiming to bolster its liquidity position to \$1 billion. In April, the company withdrew \$150 million from its credit facility, increasing its cash balance to \$730 million. Going forward, with a number of creditworthy tenants in its roster, it is expected to enjoy stable revenues. Further, loan refinancing, active sales and repayment of existing positions in the DPE portfolio as well as the completion of JVs are expected to improve its cash position.
- ▲ Furthermore, dividend payouts are arguably the biggest enticement for REIT investors and SL Green has consistently increased its dividend rate. In fact, in December 2019, the company announced a 4.1% increase in its fourth-quarter 2019 dividend to 88.5 cents per share. This represented SL Green's ninth consecutive year of common dividend hike. In 2020, the company expects to execute several asset sales with embedded tax gains and hence pay a special dividend. Apart from dividend hikes, the company remains committed to increase shareholder value through share buybacks. The company initially announced a \$1-billion share repurchase program in August 2016. This authorization was enhanced in subsequent periods, with the most recent addition of \$500 million in December 2019, bringing the tally to \$3 billion. Year-to-date through Apr 22, SL Green had repurchased 2.6 million shares and common units of its Operating Partnership, or OP units. Nonetheless, the company hauled its share buyback program until it can raise additional liquidity from asset dispositions or internal free cash flow.

Substantial high-quality office properties in key markets, diverse tenant base, opportunistic investments and strong balance sheet are growth drivers. Expansion of co-working space is also encouraging.

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## Reasons To Sell:

- ▼ Rising supply of office properties in SL Green's markets remains a concern for the company. The company faces intense competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from its tenants. This restricts its ability to attract and retain tenants at relatively higher rents than its competitors. Amid higher leasing costs and elevated supply of office assets, it will be challenging for the company to backfill near-term tenant move-outs.
- ▼ The coronavirus pandemic has led to an uncertain economic environment. In such a scenario, rental payment collections have become uncertain and landlords are compelled to offer tenant lease incentives and concessions. In fact, the company expects to face headwinds like slowdown in leasing activities, reduced market rents, and lower collections in its owned office and retail properties as well as the DPE portfolio, delays in development and redevelopment activity and higher expenses related to safety of its tenants. Amid this, the company revised its previously-issued 2020 FFO per share guidance to \$6.60-\$7.10 per share from \$7.25-\$7.35.
- ▼ Moreover, geographic concentration of assets remains a concern for SL Green. In fact, majority of the company's property holdings consists of commercial office properties situated in midtown Manhattan. The company also has a number of retail properties and multifamily residential assets in New York City. In fact, Manhattan operating properties account for around 82% of its total NOI. Therefore, performance of the company is susceptible to the condition of the New York City economy which is currently affected because of the coronavirus pandemic.
- ▼ With a street-retail portfolio in important Manhattan shopping corridors, softness in the retail real estate sector is also a concern for SL Green. In fact, the retail real estate environment is currently choppy and mall traffic has been declining significantly amid rapid increase in online sales, forcing retailers to opt for store closures. Further, the coronavirus pandemic and measures to curb its spread are expected to adversely affect the demand for retail space, limiting the landlord's pricing power and resulting in lesser absorption.
- ▼ Shares of SL Green have slumped 55.7% over the past 12 months compared with the industry's decline of 13.8%. Moreover, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as it has been revised marginally downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the near term.

Rising supply of office properties, intense competition from developers and owners, retail tenant bankruptcies and geographic concentration of assets are causes of concern before SL Green.

## Last Earnings Report

### SL Green Tops Q1 FFO, Misses on Revenues, Trims View

SL Green reported first-quarter 2020 FFO per share of \$2.08, surpassing the Zacks Consensus Estimate of \$1.70. The figure also compares favorably with the year-ago quarter's \$1.68.

The FFO per share of \$2.08 includes an incremental income from Credit Suisse at 1 Madison Avenue representing rent through Dec 31, 2020, offset by \$11.2 million.

The company also revised its full-year outlook in the wake of the coronavirus pandemic.

Net rental revenues of \$195.5 million in the first quarter missed the Zacks Consensus Estimate of \$213.5 million. The revenue figure also declined 8.1% from the prior-year tally of \$212.6 million.

### Quarter in Detail

During the March-end quarter, same-store cash NOI, including SL Green's share of same-store cash NOI from unconsolidated joint ventures, inched up 0.7% year over year. This excludes lease termination and free rent income given to Viacom for space at 1515 Broadway.

In the Manhattan portfolio, SL Green signed 30 office leases for 316,154 square feet of space in total during the reported period. The average lease term on these leases was 10.1 years, while average tenant concessions were 2 months of free rent, along with a tenant improvement allowance of \$28.54 per rentable square foot.

The mark-to-market on signed Manhattan office replacement leases was 12.6% higher than the previous fully-escalated rents in the same spaces during the first quarter. As of Mar 31, 2020, Manhattan's same-store occupancy, inclusive of leases signed but not yet commenced, was 95.5%, down 50 basis points compared with the prior quarter.

The carrying value of its debt and preferred equity investment portfolio increased to \$1.85 billion.

The company adopted the Current Expected Credit Loss model in the first quarter. The company's reserves after the adoption of this model totaled \$43.5 million at the end of the quarter.

### Liquidity

SL Green exited first-quarter 2020 with cash and cash equivalents of \$554.2 million, up from the \$166.1 million recorded at the end of 2019.

### Investment Activity

Under the \$3-billion share-repurchase program, the company has repurchased 2.6 million shares, year to date, at an average price of \$83.25 per share.

Additionally, the company completed the sale of 315 West 33rd Street, known as The Olivia and an undeveloped parcel of land for \$446.5 million. The disposals generated net cash proceeds and gains of \$95.7 million and \$72.3 million, respectively.

The company also entered into a 99-year ground lease agreement of 126-132 Nassau Street, located at the corner of Nassau and Beekman Streets.

### Guidance

The company believes the coronavirus pandemic will result in headwinds like slowdown in leasing activities, reduced market rents and lower collections in its owned properties. The company also revised its previously-issued 2020 FFO per share guidance to \$6.60-\$7.10 from \$7.25-\$7.35.

Quarter Ending **03/2020**

| Report Date      | Apr 22, 2020 |
|------------------|--------------|
| Sales Surprise   | -8.44%       |
| EPS Surprise     | 22.35%       |
| Quarterly EPS    | 2.08         |
| Annual EPS (TTM) | 7.40         |

## Recent News

### SL Green forms JV With NPS and Hines at One Madison Avenue – May 5, 2020

SL Green, National Pension Service of Korea (NPS) and Hines Interest LP formed a joint-venture partnership at One Madison Avenue through the selling of a 49.5% stake in One Madison Avenue to NPS and Hines.

Particularly, NPS and Hines' committed total equity to the project aggregates no less than \$492.2 million. The 2.3 billion project spans 1.4 million rentable square feet upon completion will be co-developed by SL Green and Hines.

### SL Green to Sell 609 Fifth Avenue Retail Condominium - May 4, 2020

SL Green has struck a deal to sell its recently-repositioned 609 Fifth Avenue retail condominium for \$168 million to an affiliate of the Reuben Brothers. Slated to close in the second quarter of 2020, subject to satisfaction of various closing conditions, the transaction is in sync with the company's strategy to drive value for shareholders amid the uncertain economic and market conditions.

### SL Green Inks Leases for 107,000 Square Feet - Apr 23, 2020

SL Green announced that it sealed 12 leases totaling 107,325 square feet of office space in the first three weeks of second-quarter 2020. This brings the company's year-to-date leasing to 423,479 square feet of space.

Leases inked in second quarter include 34,013 square feet rented out at One Vanderbilt Avenue, bringing the tower to be more than 67% leased. The leases at One Vanderbilt Avenue consist of a new lease covering 10,165 square feet for InTandem Capital Partners and Sagewind Capital LLC as well as an expansion lease, spanning 23,848 square feet for Oak Hill Advisors.

Per management, 2020 leasing activities continue at a moderate pace as "tenants are re-assessing per employee space allocations with an eye toward de-densifying and providing more space per employee."

### Dividend Update

On Apr 24, SL Green's board announced a monthly dividend of 29.5 cents per share of common stock. The dividend was paid out on May 15 to shareholders of record as of Apr 30, 2020.

## Valuation

SL Green's shares have been down 55.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 13.8% and 21.2%, over the past year, respectively.

The S&P 500 Index is up 1.9% over the past year.

The stock is currently trading at 5.69X forward 12-month FFO, which compares with the 16.72X for the Zacks sub-industry, 15.39X for the Zacks sector and 21.51X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.77X and as low as 5.36X, with a 5-year median of 14.33X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 6.04X FFO.

The table below shows summary valuation data for SLG.

| Valuation Multiples - SLG |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 5.69  | 16.72        | 15.39  | 21.51   |
|                           | 5-Year High   | 18.77 | 18.10        | 16.18  | 21.51   |
|                           | 5-Year Low    | 5.36  | 14.32        | 11.58  | 15.23   |
|                           | 5-Year Median | 14.33 | 16.08        | 13.94  | 17.49   |
| P/S F12M                  | Current       | 3.89  | 7.31         | 5.81   | 3.34    |
|                           | 5-Year High   | 10.85 | 8.14         | 6.70   | 3.44    |
|                           | 5-Year Low    | 3.53  | 5.91         | 4.99   | 2.53    |
|                           | 5-Year Median | 8.51  | 6.88         | 6.05   | 3.01    |
| P/B TTM                   | Current       | 0.55  | 2.09         | 2.36   | 4.03    |
|                           | 5-Year High   | 1.65  | 3.01         | 2.90   | 4.56    |
|                           | 5-Year Low    | 0.54  | 1.80         | 1.71   | 2.83    |
|                           | 5-Year Median | 1.30  | 2.51         | 2.53   | 3.65    |

As of 05/19/2020

## Industry Analysis Zacks Industry Rank: Top 31% (80 out of 254)



## Top Peers

| Company (Ticker)                            | Rec     | Rank |
|---------------------------------------------|---------|------|
| Alexandria Real Estate Equities, Inc. (ARE) | Neutral | 3    |
| Boston Properties, Inc. (BXP)               | Neutral | 3    |
| Cousins Properties Incorporated (CUZ)       | Neutral | 3    |
| Douglas Emmett, Inc. (DEI)                  | Neutral | 3    |
| Highwoods Properties, Inc. (HIW)            | Neutral | 3    |
| Hudson Pacific Properties, Inc. (HPP)       | Neutral | 3    |
| Kilroy Realty Corporation (KRC)             | Neutral | 3    |
| Piedmont Office Realty Trust, Inc. (PDM)    | Neutral | 3    |

| Industry Comparison Industry: Reit And Equity Trust - Other |           |            |           | Industry Peers |           |         |
|-------------------------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                                             | SLG       | X Industry | S&P 500   | ARE            | BXP       | HIW     |
| Zacks Recommendation (Long Term)                            | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                                     | 3         | -          | -         | 3              | 3         | 3       |
| VGM Score                                                   | C         | -          | -         | C              | D         | B       |
| Market Cap                                                  | 2.96 B    | 1.78 B     | 19.91 B   | 18.34 B        | 12.09 B   | 3.40 B  |
| # of Analysts                                               | 7         | 4          | 14        | 3              | 10        | 9       |
| Dividend Yield                                              | 9.16%     | 4.79%      | 2.14%     | 2.84%          | 5.04%     | 5.87%   |
| Value Score                                                 | C         | -          | -         | F              | C         | C       |
| Cash/Price                                                  | 0.21      | 0.08       | 0.07      | 0.03           | 0.07      | 0.04    |
| EV/EBITDA                                                   | 12.66     | 13.32      | 12.09     | 22.92          | 13.46     | 11.89   |
| PEG Ratio                                                   | 1.52      | 3.45       | 2.68      | 4.84           | 2.20      | 1.93    |
| Price/Book (P/B)                                            | 0.55      | 1.12       | 2.75      | 1.68           | 1.47      | 1.46    |
| Price/Cash Flow (P/CF)                                      | 5.58      | 9.42       | 10.68     | 20.18          | 10.01     | 8.67    |
| P/E (F1)                                                    | 5.66      | 13.21      | 19.96     | 19.98          | 10.80     | 9.16    |
| Price/Sales (P/S)                                           | 2.37      | 4.15       | 2.01      | 11.37          | 4.05      | 4.50    |
| Earnings Yield                                              | 17.75%    | 7.33%      | 4.83%     | 5.00%          | 9.26%     | 10.91%  |
| Debt/Equity                                                 | 1.12      | 0.92       | 0.76      | 0.67           | 1.47      | 1.04    |
| Cash Flow (\$/share)                                        | 6.92      | 2.03       | 7.01      | 7.20           | 7.77      | 3.77    |
| Growth Score                                                | D         | -          | -         | B              | D         | C       |
| Hist. EPS Growth (3-5 yrs)                                  | -0.46%    | 2.02%      | 10.87%    | 7.76%          | 5.66%     | 2.72%   |
| Proj. EPS Growth (F1/F0)                                    | -2.04%    | -2.83%     | -10.48%   | 4.50%          | 2.82%     | 7.31%   |
| Curr. Cash Flow Growth                                      | 3.22%     | 3.36%      | 5.51%     | 4.79%          | -2.18%    | -1.95%  |
| Hist. Cash Flow Growth (3-5 yrs)                            | -0.78%    | 12.74%     | 8.55%     | 23.85%         | 2.31%     | 4.75%   |
| Current Ratio                                               | 3.97      | 1.74       | 1.28      | 0.37           | 5.59      | 1.48    |
| Debt/Capital                                                | 50.64%    | 48.38%     | 44.46%    | 40.16%         | 58.89%    | 51.60%  |
| Net Margin                                                  | 27.34%    | 12.85%     | 10.59%    | 15.68%         | 30.83%    | 41.50%  |
| Return on Equity                                            | 5.89%     | 3.94%      | 16.27%    | 2.64%          | 11.64%    | 14.27%  |
| Sales/Assets                                                | 0.09      | 0.13       | 0.55      | 0.09           | 0.14      | 0.15    |
| Proj. Sales Growth (F1/F0)                                  | -10.67%   | 0.00%      | -2.49%    | 0.00%          | 1.61%     | 1.92%   |
| Momentum Score                                              | A         | -          | -         | B              | B         | A       |
| Daily Price Chg                                             | -5.73%    | -0.78%     | -1.38%    | -0.03%         | -3.84%    | -2.73%  |
| 1 Week Price Chg                                            | -21.73%   | -10.78%    | -4.56%    | -6.95%         | -13.76%   | -14.90% |
| 4 Week Price Chg                                            | -13.87%   | 2.13%      | 6.08%     | -1.42%         | -12.00%   | -8.40%  |
| 12 Week Price Chg                                           | -55.02%   | -29.61%    | -13.96%   | -11.21%        | -43.09%   | -34.72% |
| 52 Week Price Chg                                           | -55.70%   | -26.16%    | -7.85%    | -0.51%         | -41.38%   | -25.38% |
| 20 Day Average Volume                                       | 1,983,718 | 806,260    | 2,586,392 | 785,807        | 1,826,895 | 956,500 |
| (F1) EPS Est 1 week change                                  | 0.00%     | 0.00%      | 0.00%     | -0.54%         | 0.00%     | 0.00%   |
| (F1) EPS Est 4 week change                                  | -2.73%    | -1.96%     | -4.62%    | 1.44%          | -1.64%    | 0.59%   |
| (F1) EPS Est 12 week change                                 | -6.22%    | -5.38%     | -16.58%   | -1.22%         | -5.01%    | -1.88%  |
| (Q1) EPS Est Mthly Chg                                      | -5.22%    | -2.78%     | -10.10%   | 0.56%          | -3.11%    | -0.93%  |

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## 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.

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### 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   | D |
| Momentum Score | A |
| VGM Score      | C |

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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