SL Green Realty Corp. (SLG)

$46.44 (As of 07/24/20)

Price Target (6-12 Months): **$50.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 04/12/18)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B Growth: D Momentum: B	

Summary

SL Green is likely to benefit from high-quality office properties in key locations, a diverse tenant base and de-densification trends. Its business plan entails non-core properties' sale to narrow its focus on the Manhattan market, and use proceeds to fund development pipeline and repay debt. In fact, the measures have enabled the company to retain premium and highest-growth assets in the portfolio. Further, it has bolstered liquidity to $1 billion and this provides financial flexibility to navigate through the ongoing volatility. Yet, shares of SL Green have underperformed its industry over the past year. Amid the coronavirus crisis, the company expects to face a slowdown in leasing activities, reduced market rents and lower rent collections in its retail properties. High supply of office properties and choppy retail environment are concerns.
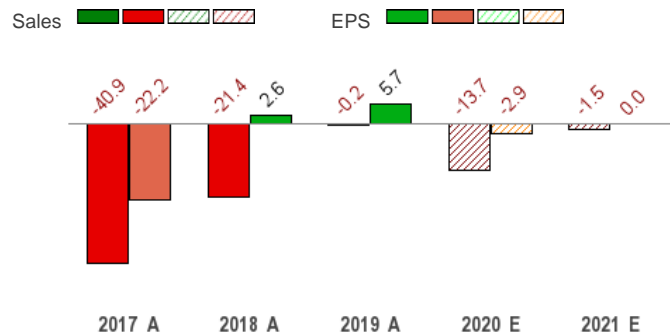
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$96.39 - $35.16**
20 Day Average Volume (sh)	**1,293,419**
Market Cap	**$3.6 B**
YTD Price Change	**-49.5%**
Beta	**1.61**
Dividend / Div Yld	**$3.54 / 7.6%**
Industry	**REIT and Equity Trust - Other**
Zacks Industry Rank	**Bottom 23% (194 out of 252)**
Last EPS Surprise	**9.7%**
Last Sales Surprise	**-5.5%**
EPS F1 Est- 4 week change	**0.2%**
Expected Report Date	**NA**
Earnings ESP	**-0.3%**
P/E TTM	**6.4**
P/E F1	**6.8**
PEG F1	**1.8**
P/S TTM	**3.0**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	183 E	184 E	185 E	187 E	734 E
2020	195 A	174 A	183 E	182 E	745 E
2019	213 A	216 A	215 A	219 A	863 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.58 E	$1.64 E	$1.70 E	$1.70 E	$6.80 E
2020	$2.08 A	$1.70 A	$1.55 E	$1.58 E	$6.80 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/24/2020. The reports text is as of 07/27/2020.

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 96 buildings, covering 41 million square feet of space. This comprised ownership interests in Manhattan properties, spanning 28.7 million square feet of area, and 11.2 million square feet of space secured by DPE investments.

In the Manhattan portfolio, SL Green signed 35 office leases for 280,002 square feet during the second quarter. The mark-to-market on signed Manhattan office replacement leases was 0.8%, lower than the previous fully-escalated rents in the same spaces during the second quarter. As of Jun 30, 2020, Manhattan's same-store occupancy, inclusive of leases signed but not yet commenced, was 95.2%.

EPS Hist. and Est.

Sales Hist. and Est.

SL Green adopted the Current Expected Credit Loss model in first-quarter 2020. The company's reserves after the adoption of this model totaled $43.5 million at the end of the quarter.

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.*
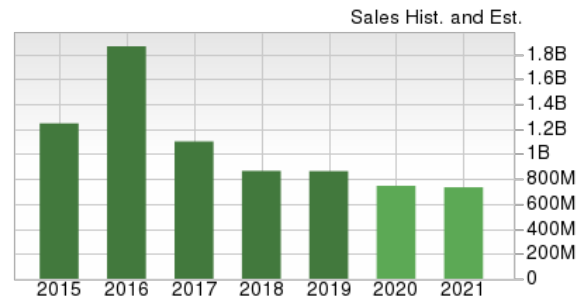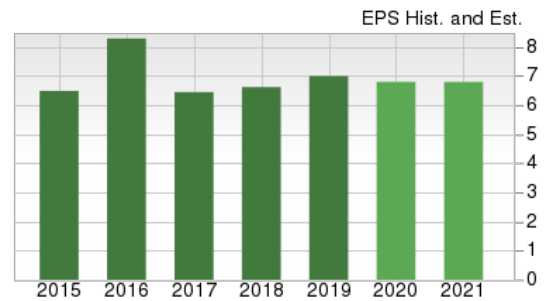
Reasons To Buy:

▲ 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. In fact, its overall gross tenant billings collection for the April-June period was 90.7% and for July was 87%.

▲ Much of the leasing proportion has shifted from new to renewal oriented deals due to the pandemic. Going forward, the next cycle of office-space demand will likely be driven by de-densification to allow higher square footage per office worker and the need for better-amenitized office properties to focus on health & wellness amid social-distancing requirements. Moreover, tenant downsizing is less likely and this will improve tenant retention. Hence, SL Green is well-positioned to benefit from the emerging trend, given the demand for office space in Manhattan. In fact, the company is likely to witness a strong second half of the year on the back of its leasing deal pipeline. It has around 600,000 square feet of space in the leasing pipeline. This consists of 200,000 square feet of new or expansion deals and around 380,000 square feet of renewal deals.

▲ 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. In fact, despite the transaction markets being muted, the company expects additional sales in the second half of the year. Further, the company chipped its DPE portfolio, reducing exposure to the struggling retail asset class in the second quarter. 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 a pristine balance sheet and ample financial flexibility, with cash and cash equivalents of $1.01 billion as of the second-quarter end. In fact, amid the coronavirus outbreak-led uncertainties, it undertook proactive steps to enhance its bolster liquidity position to $1 billion on the back of financing, refinancing, sales and repayment of existing positions in the DPE portfolio as well as the sale of real estate assets and JV stake. Such prudent steps enhance SL Green's ability to withstand the current crisis and any future unexpected negative externalities. Moreover, its fixed charge coverage ratio has been improving over the previous five quarters, indicating higher cash flows available for debt repayment and other fixed charges. As of Jun 30, 2020, consolidated fixed-charge coverage was 2.75X. Also, the company has no significant debt maturities until 2021. Going forward, with a number of creditworthy tenants in its roster, it is expected to enjoy stable revenues.

▲ 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. From the start of the year through Jun 22, the company repurchased 6.2 million shares of common stock.

▲ Shares of SL Green have plunged 42.7% over the past year compared with the industry's decline of 6.5%. Nonetheless, the trend in estimate revisions for 2020 FFO per share indicates a favorable outlook for the company as it has been revised marginally upward over the past week. Therefore, given the strong fundamentals and positive estimate revisions, the stock has a decent upside potential in the near term.

Substantial high-quality office properties in key markets, diverse tenant base, opportunistic investments and strong balance sheet are growth drivers.

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, reduced office space utilization and rental payment collections have become uncertain and landlords are offering tenant lease incentives and concessions. Amid this, the company will likely to face headwinds like slowdown in leasing activities and reduced market rents. Amid this, the company earlier revised its previously-issued 2020 FFO per share guidance to $6.60-$7.10 per share from $7.25-$7.35. Moreover, management reduced 2020 leasing volume goal from 1.6 million square feet projected in the beginning of 2020 to 1.28 million square feet.

▼ 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 87% 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. Moreover, it is impacting retail tenant's ability to pay rents. In fact, the company's gross retail tenant billings collection for the second quarter was 69.6% and 61.5% for July.

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 Q2 FFO Surpasses Estimates, Revenues Miss

SL Green reported second-quarter 2020 FFO per share of $1.70, surpassing the Zacks Consensus Estimate of $1.55. The figure, however, compares unfavorably with the year-ago quarter's $1.82.

The reported figure includes 4 cents per share of loss related to the sale of certain DPE investments, and 4 cents per share of reserves against the retained DPE portfolio.

Quarter Ending	06/2020
Report Date	**Jul 22, 2020**
Sales Surprise	**-5.49%**
EPS Surprise	**9.68%**
Quarterly EPS	**1.70**
Annual EPS (TTM)	**7.28**

Net rental revenues of $174.14 million in the second quarter missed the Zacks Consensus Estimate of $184.26 million. The revenue figure also declined around 20% from the prior-year number of $216.48 million.

As of Jul 22, the company's gross tenant billings collection for the April-June period was 90.7%. This consisted of 95.7% for office and 69.6% for retail. As of Jul 21, the company's gross tenant billing receipts for July were 87%, consisting of 91.7% for office and 61.5% for retail. It expects additional collections in the upcoming period.

Quarter in Detail

During the June-end quarter, same-store cash net operating income (NOI), including SL Green's share of same-store cash NOI from unconsolidated joint ventures, improved 2.1% 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 35 office leases for 280,002 square feet during the reported period. The average lease term on these leases was 4.3 years, while average tenant concessions were 4.5 months of free rent, along with a tenant improvement allowance of $8.42 per rentable square foot.

The mark-to-market on signed Manhattan office replacement leases was 0.8% lower than the previous fully-escalated rents in the same spaces during the second quarter. As of Jun 30, 2020, Manhattan's same-store occupancy, inclusive of leases signed but not yet commenced, was 95.2%, down 40 basis points from the prior quarter.

The carrying value of its debt and preferred equity investment portfolio decreased to $1.25 billion.

Liquidity

SL Green exited second-quarter 2020 with cash and cash equivalents of $1.01 billion, up from $166.1 million recorded at the end of 2019.

Investment Activity

Under the $3-billion share-repurchase program, the company has repurchased 6.2 million shares year to date, at an average price of $64.28 per share.

In May, it sold a 49.5% stake in One Madison Avenue to Hines Interest LP and the National Pension Service of Korea ("NPS"). Particularly, NPS and Hines' committed total equity to the project aggregates no less than $492.2 million. The $2.3-billion project will be developed by SL Green and Hines and will span 1.4 million rentable square feet upon the completion.

SL Green Q2 FFO Surpasses Estimates, Revenues Miss

Recent News

SL Green & Its JV Partner to Sell Residential Asset for $62M – Jun 30, 2020

SL Green with its joint venture partner, entered a sale contract to dispose a residential building — 400 East 58th Street — at a gross value of $62 million. The property is 97% occupied and includes 126 residential units as well as around 3,800 square feet of commercial space.

Subject to customary closing norms, the transaction is anticipated to close in third-quarter 2020. SL Green has a 90% stake in the JV and will receive around $20 million from the sale transaction.

Notably, the building was acquired as part of an eight-building portfolio buyout, consisting of retail and multi-family properties, in 2012. The 16-story property is located in the Sutton Place neighborhood of Manhattan.

Per management, the disposition is in line with the company's business plan to prune portfolio through the sale of non-core assets at opportunistic market values, and reinvest the sale proceeds to fund its development projects and share buyback program. Moreover, the deal demonstrates the continued strength and demand for real estate in New York City.

Dividend Update

On Jul 20, SL Green's board announced a monthly dividend of 29.5 cents per share of common stock. The dividend will be paid out on Aug 17 to shareholders of record as of Jul 31, 2020.

Valuation

SL Green's shares have been down 42.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 6.5% and 13.9% in the past year, respectively.

The S&P 500 Index is up 6.9% in the past year.

The stock is currently trading at 6.83X forward 12-month FFO, which compares to 18.46X for the Zacks sub-industry, 16.36X for the Zacks sector and 22.51X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.19X and as low as 5.36X, with a 5-year median of 14.17X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $50 price target reflects 7.35X FFO.

The table below shows summary valuation data for SLG.

Valuation Multiples - SLG		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.83	18.46	16.36	22.51
	5-Year High	18.19	18.46	16.36	22.51
	5-Year Low	5.36	14.32	11.59	15.25
	5-Year Median	14.17	16.08	14.16	17.52
P/S F12M	Current	4.81	7.93	6.04	3.55
	5-Year High	10.85	8.21	6.66	3.55
	5-Year Low	3.53	5.97	4.96	2.53
	5-Year Median	8.46	6.97	6.06	3.02
P/B TTM	Current	0.67	2.34	2.38	4.40
	5-Year High	1.63	3.03	2.91	4.56
	5-Year Low	0.52	1.81	1.72	2.83
	5-Year Median	1.29	2.51	2.53	3.71

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Alexandria Real Estate Equities, Inc. (ARE)	Neutral	2
Boston Properties, Inc. (BXP)	Neutral	4
Cousins Properties Incorporated (CUZ)	Neutral	2
Douglas Emmett, Inc. (DEI)	Neutral	3
Highwoods Properties, Inc. (HIW)	Neutral	2
Hudson Pacific Properties, Inc. (HPP)	Neutral	4
Kilroy Realty Corporation (KRC)	Neutral	4
Piedmont Office Realty Trust, Inc. (PDM)	Neutral	2

Industry Comparison Industry: Reit And Equity Trust - Other

	SLG	X Industry	S&P 500	ARE	BXP	HIW
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	2
VGM Score	C	-	-	C	D	C
Market Cap	3.55 B	1.93 B	22.16 B	21.26 B	14.09 B	3.82 B
# of Analysts	8	4	14	3	9	8
Dividend Yield	7.62%	4.32%	1.81%	2.52%	4.32%	5.22%
Value Score	B	-	-	D	C	B
Cash/Price	0.17	0.07	0.06	0.02	0.06	0.03
EV/EBITDA	13.79	13.83	13.07	25.58	14.61	12.76
PEG Ratio	1.81	3.57	3.03	5.36	2.59	2.16
Price/Book (P/B)	0.67	1.24	3.11	1.95	1.71	1.64
Price/Cash Flow (P/CF)	6.71	10.39	12.27	23.41	11.67	9.74
P/E (F1)	6.70	14.64	21.88	23.04	12.74	10.26
Price/Sales (P/S)	2.99	4.62	2.38	13.18	4.72	5.05
Earnings Yield	14.64%	6.06%	4.34%	4.34%	7.85%	9.74%
Debt/Equity	1.18	0.92	0.76	0.67	1.47	1.04
Cash Flow ($/share)	6.92	2.05	7.01	7.20	7.77	3.77
Growth Score	D	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	-0.46%	1.92%	10.82%	7.76%	5.66%	2.72%
Proj. EPS Growth (F1/F0)	-2.82%	-3.43%	-9.01%	5.12%	1.54%	7.62%
Curr. Cash Flow Growth	3.22%	3.36%	5.47%	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	6.70	1.80	1.31	0.37	5.59	1.48
Debt/Capital	52.21%	48.50%	44.41%	40.16%	58.89%	51.60%
Net Margin	19.90%	12.85%	10.46%	15.68%	30.83%	41.50%
Return on Equity	4.21%	3.98%	15.13%	2.64%	11.64%	14.27%
Sales/Assets	0.09	0.13	0.54	0.09	0.14	0.15
Proj. Sales Growth (F1/F0)	-13.69%	0.00%	-2.06%	0.00%	1.95%	1.68%
Momentum Score	B	-	-	D	D	B
Daily Price Chg	-3.05%	-1.68%	-0.65%	0.02%	-0.89%	-2.49%
1 Week Price Chg	1.54%	0.90%	3.82%	3.69%	6.50%	3.22%
4 Week Price Chg	-7.23%	-2.64%	4.96%	1.17%	0.69%	-2.05%
12 Week Price Chg	-12.46%	2.01%	9.30%	7.30%	-6.70%	-5.28%
52 Week Price Chg	-42.92%	-22.00%	-2.82%	17.82%	-30.57%	-17.45%
20 Day Average Volume	1,293,419	712,091	2,026,477	900,194	1,240,216	722,746
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	0.00%	-0.19%	0.03%
(F1) EPS Est 4 week change	0.17%	0.00%	0.15%	0.23%	-0.65%	0.10%
(F1) EPS Est 12 week change	0.50%	-2.29%	-3.24%	2.38%	-2.56%	0.73%
(Q1) EPS Est Mthly Chg	-0.09%	0.00%	0.00%	0.82%	-0.82%	-0.03%

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	B
Growth Score	D
Momentum Score	B
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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