

Taubman Centers, Inc. (TCO)

\$32.01 (As of 01/16/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

Summary

Taubman Centers' solid retail real estate portfolio, high-quality retailers in tenant roster and diligent restructuring measures are likely to support its long-term growth. Further, the company is aimed at improving productivity at its malls by replacing lower volume tenants with higher productive ones. It also witnessed the 13th consecutive quarter of positive sales per square foot growth in third-quarter 2019. However, declining mall traffic, bankruptcies and store closures have emerged as pressing concerns. Further, given its international presence, unfavorable foreign currency-exchange rates affect the company's results. Also, shares of Taubman Centers have underperformed its industry in the past six months, while the trend in estimate revision of current-year funds from operations (FFO) per share does not indicate an upbeat outlook.

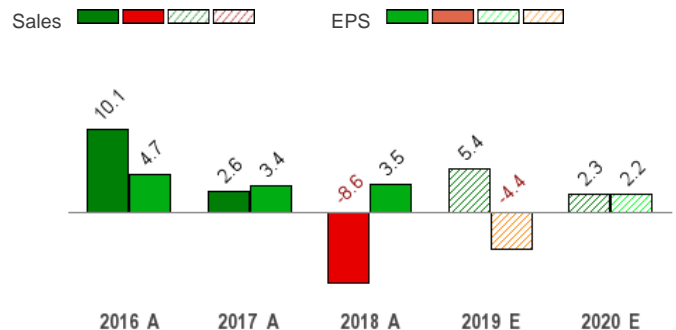
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.50 - \$29.43
20 Day Average Volume (sh)	796,562
Market Cap	\$2.0 B
YTD Price Change	3.0%
Beta	0.63
Dividend / Div Yld	\$2.70 / 8.4%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 21% (201 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.1%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	8.8
P/E F1	8.6
PEG F1	2.2
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	149 E	148 E	151 E	162 E	620 E
2019	149 A	150 A	145 A	159 E	606 E
2018	141 A	140 A	143 A	152 A	575 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.91 E	\$0.90 E	\$0.95 E	\$1.01 E	\$3.74 E
2019	\$0.93 A	\$0.94 A	\$0.88 A	\$0.93 E	\$3.66 E
2018	\$1.04 A	\$0.87 A	\$1.01 A	\$0.91 A	\$3.83 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

Overview

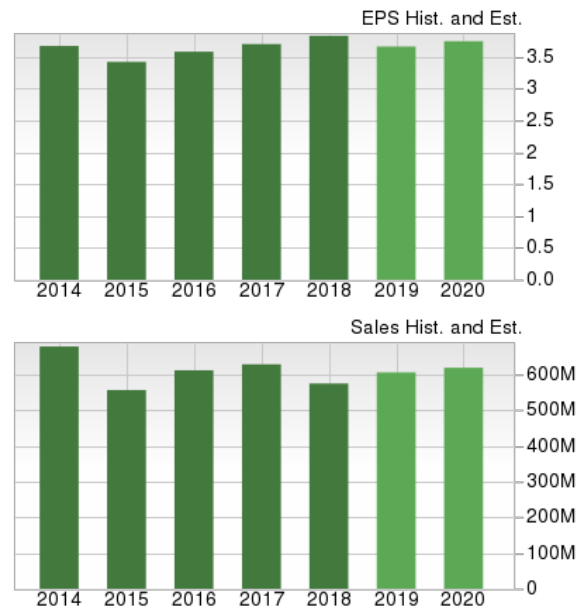
Bloomfield Hills, MI-based Taubman Centers Inc. is a retail real estate investment trust (REIT), which owns, develops, manages, acquires and operates regional and super-regional shopping centers throughout the United States. The shopping centers are strategically located in major metropolitan areas, which include Denver, Detroit, Honolulu, Kansas City, Los Angeles, Miami, Nashville, New York City, Orlando, Salt Lake City, San Francisco, San Juan, Sarasota, St. Louis, Tampa, Washington, D.C., Xi'an (China), and Zhengzhou (China)

Moreover, the company has an operating arm, Taubman Properties Asia LLC and its subsidiaries (Taubman Asia). This arm, headquartered in Hong Kong, serves as the platform for Taubman's expansion plans in China and South Korea.

Currently, Taubman enjoys ownership, management and/or leasing of 26 regional, super-regional and outlet shopping centers in the United States and Asia. Further, as of Sep 30, 2019, the company's owned portfolio consisted of 24 urban and suburban shopping centers in 11 U.S. states, Puerto Rico, South Korea and China.

During the third quarter of 2019, the company closed the sale of Taubman Asia's 50% stake in Starfield Hanam in South Korea to real estate funds managed by The Blackstone Group, for \$300 million. This sale came as part of Taubman's agreement in February to sell 50% of its three Asia-based shopping centers to Blackstone, with closings anticipated throughout 2019

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:

- ▲ Taubman Centers' dominant retail malls, located in posh regions, have high average sales productivity in the United States. The company boasts a high-quality roster of national retailers. This ensures a steady source of rental revenues for the company. It also witnessed the 13th consecutive quarter of positive sales per square foot growth in third-quarter 2019.
- ▲ Further, with a decent employment scenario, demand for retail goods is expected to remain steady. Hence, this is an opportune moment for the company to leverage on the favorable environment and offer real estate support to the retail sector. Amid this, in April, Taubman Centers acquired 48.5% interest in a top-tier retail asset — The Gardens Mall 0151 — in an off-market, non-cash transaction. The company expects the deal to be neutral to slightly accretive to FFO and adjusted FFO in 2019. In June, the company substantially completed its redevelopment project at The Mall at Green Hills. Additionally, many of the company's tenants are expanding footprint in Taubman Centers' portfolio. This is expected to drive rental revenues. In addition, there is limited supply of new properties in the market.
- ▲ Amid the challenging times in the retail real estate market, Taubman Centers undertook a restructuring of its workforce and reorganization of several functions in an effort to create operational efficiencies. The company has put into place a number of cost-saving initiatives and reduction of pre-development spending. In fact, these efforts are likely to drive the company's long-term profitability.
- ▲ Further, management has been focusing on cross-sell initiatives throughout the year. Also, the company is making concerted efforts to improve merchandising and productivity at its retail centers. As part of such initiatives, the company is replacing lower volume tenants with higher productive retailers. In fact, the company is also introducing digitally native retailers, emerging brands, as well as co-working and entertainment concepts at its malls. Such efforts are likely to support net operating income (NOI) and FFO growth.
- ▲ Taubman Centers remains committed to increasing its shareholders' wealth. In March 2019, the company declared a 3.1% hike in its quarterly dividend. Notably, Taubman Centers has never slashed its common dividend since it went public in 1992. On the contrary, it has hiked its payout 22 times since then. Moreover, in October 2019, the company refinanced and extended both its primary line of credit and one of its unsecured term loans. The line of credit maintains a capacity of \$1.1 billion, while the term loan now has a principal balance of \$275 million. The refinancing slightly lowered the company's effective borrowing rates and improved weighted-average debt maturity to nearly six years. With improved balance-sheet strength and ample liquidity, the company remains well poised to pursue its growth endeavors and sustain the hiked dividend. Such shareholder-friendly move boosts investors' confidence in the stock.

Solid portfolio, high-quality tenant roster and restructuring efforts are likely to drive growth. Replacing lower volume tenants with higher productive retailers will improve productivity at its malls.

Reasons To Sell:

- ▼ Mall traffic continues to suffer amid a rapid shift in customers' shopping preferences and patterns, with online purchases growing by leaps and bounds. These have made retailers reconsider their footprint and eventually opt for store closures. In addition, retailers unable to cope with competition are filing bankruptcies. This has emerged as a pressing concern for retail REITs like Taubman Centers, as the trend is considerably bringing down demand for the retail real estate space and impacting occupancy rates. Moreover, such an environment has led to tenants demanding substantial lease concessions. In fact, bankruptcy filings by the company's mall tenants have recently been higher. It included Forever 21, the company's largest mall tenant during the three-month period ended Sep 30, 2019.
- ▼ In addition, given its international presence, the company often faces unfavorable foreign currency movements, which affect NOI growth. In fact, the company's third-quarter 2019 comparable-center NOI results had an adverse impact from continued unfavorable foreign currency-exchange rates. Moreover, the comparable-center NOI growth is projected to be flat to 1%, down from the previous guidance of 2%. This reduction in projection can be primarily attributed to unfavorable foreign-currency exchange rates and elevated tenant bankruptcies, including Forever 21.
- ▼ Further, the regional shopping center industry is seasonal in nature, with the fourth quarter recording the highest levels of mall tenant sales due to the Christmas season, while in the first quarter most leases are slated to expire. In addition, bulk of new stores opening take place in the second half of the year. Moreover, maximum overage rents are recorded in the fourth quarter. Therefore, revenues and occupancy levels are usually highest in the fourth quarter.
- ▼ Although interest rate levels are currently low, any future hike in rate can pose 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 itself might become less attractive compared to the yields on fixed income and money market accounts.
- ▼ Shares of Taubman Centers have depreciated 20.8%, as against the industry's rally of 3.7% in the past six months. In addition, the trend in estimate revision of current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share has been revised marginally downward over the past week. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited near-term upside potential.

Stiff competition, growing online sales, store closures and retailers' bankruptcies remain major concerns for Taubman Centers. Moreover, unfavorable foreign-currency movements add to its woes.

Last Earnings Report

Taubman Centers' Q3 FFO & Revenues Miss Estimates

Taubman Centers reported third-quarter 2019 FFO per share of 88 cents, missing the Zacks Consensus Estimate of 89 cents.

Decline in comparable center NOI and rise in interest expense unfavorably impacted the results. However, higher ending occupancy in comparable centers provided some support.

Moreover, adjusted revenues, including rental revenues and overage rents for consolidated businesses, came in at around \$145.1 million, missing the Zacks Consensus Estimate of \$147.2 million. Nonetheless, the reported figure inched up 1.7% year over year.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-1.41%
EPS Surprise	-1.12%
Quarterly EPS	0.88
Annual EPS (TTM)	3.66

Quarter in Detail

Comparable center NOI (excluding lease cancellation income and using constant foreign exchange rates) edged down 0.9% year over year. For the period ended Sep 30, 2019, the trailing 12-month releasing spread per square foot was down 1%.

Comparable tenant sales per square foot increased 11.2%, year over year. Trailing 12-month sales per square foot of \$868 was up 12% as compared with the same period ended Sep 30, 2018. Also, average rent per square foot for the quarter was \$56.03, marking 2.3% increase from \$54.77 in the year-ago period.

As of Sep 30, 2019, leased space in comparable centers was 95.9%, inching up 0.1% from Sep 30, 2018. Additionally, ending occupancy in comparable centers of 93.4% at the end of the reported quarter was up 0.1% year over year.

Notably, in September, Taubman Centers closed the sale of Taubman Asia's 50% stake in Starfield Hanam, located in Hanam, South Korea, to real estate funds managed by The Blackstone Group Inc., for \$300 million. Subsequent to the sale, Taubman now owns a 17.15% interest in the property. The company received net proceeds of about \$240 million, which was used to pay its debt.

Liquidity

Taubman Centers exited third-quarter 2019 with cash and cash equivalents of \$62.6 million, up from the \$48.4 million reported at the end of December 2018.

Guidance

The company has revised its projections for 2019 FFO per share to \$3.49-\$3.59 from the prior range of \$3.47-\$3.57. However, adjusted FFO, which excludes 15 cents per share of year-to-date adjustments, remained unchanged at \$3.64-\$3.74.

The comparable-center NOI growth is projected to be flat to 1%, down from the previous guidance of 2%. This reduction in projection can be primarily attributed to unfavorable foreign-currency exchange rates and elevated tenant bankruptcies.

Recent News

Taubman Sells 50% Stake in Starfield Hanam to Blackstone – Sep 19, 2019

Taubman Centers closed the sale of Taubman Asia's 50% stake in Starfield Hanam, located in Hanam, South Korea, to real estate funds managed by The Blackstone Group Inc., for \$300 million.

Net cash proceeds to Taubman are projected at roughly \$240 million, after transaction costs and the allocation to Blackstone of its share of third-party debt. Subsequent to the sale, Taubman will own a 17.15% beneficial interest in the property and be responsible for its joint management.

The shopping center, spanning around 1.7 million square feet of gross leasable area, is anchored by Shinsegae, PK Market and Traders. The property witnessed total sales of more than \$825 million in 2018, making it among the most productive retail assets in the world.

This sale comes as part of Taubman's agreement in February to sell 50% of its three Asia-based shopping centers — Starfield Hanam, CityOn.Xi'an (Xi'an, China) and CityOn.Zhengzhou (Zhengzhou, China) — to Blackstone, with closings anticipated throughout 2019.

Per management, through this transaction, the company has made significant progress on the agreement, while adding Blackstone as a strategic partner. Further, management anticipates closing the remaining two deals in the upcoming months.

Notably, Blackstone's investment will be made through its Asia Core+ real estate investment unit and the investment unit targets substantially stabilized office, logistics, residential and retail properties in high-quality Asian geographies and gateway cities.

The transactions will likely improve Taubman's liquidity position, helping repay balances under its revolving credit line. Further, with improved access to capital, the company will be well poised to grow its Asia asset base with Blackstone as a potential partner.

Additionally, these capital-recycling efforts to self-fund its growth reduces the company's leverage levels and minimizes need to raise capital from equity issuance.

Dividend Update

On Dec 5, Taubman Centers announced a regular quarterly cash dividend of 67.50 cents per share of common stock. The dividend was paid on Dec 31, to shareholders of record as of Dec 16, 2019.

Valuation

Taubman Centers' shares have been down 36.8% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.3% and 10.5% in the past year, respectively.

The S&P 500 index is up 22.2% in the past year.

The stock is currently trading at 8.52X forward 12-month FFO, which compares to 15.01X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.97X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.06X and as low as 7.86X, with a 5-year median of 16.30X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 9.05X FFO.

The table below shows summary valuation data for TCO.

Valuation Multiples - TCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.52	15.01	14.79	18.97
	5-Year High	24.06	19.44	16.21	19.34
	5-Year Low	7.86	12.57	12.01	15.17
	5-Year Median	16.3	15.13	13.98	17.44
P/S F12M	Current	3.16	8.31	6.53	3.53
	5-Year High	8.32	13.91	6.61	3.53
	5-Year Low	2.95	7.13	5.2	2.54
	5-Year Median	6.12	8.31	6.04	3

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



Top Peers

CBL & Associates Properties, Inc. (CBL)	Neutral
Federal Realty Investment Trust (FRT)	Neutral
Kimco Realty Corporation (KIM)	Neutral
Macerich Company (The) (MAC)	Neutral
Tanger Factory Outlet Centers, Inc. (SKT)	Neutral
Simon Property Group, Inc. (SPG)	Neutral
Washington Prime Group Inc. (WPG)	Neutral
Pennsylvania Real Estate Investment Trust (PEI)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	TCO Neutral	X Industry	S&P 500	MAC Neutral	SPG Neutral	WPG Neutral
VGM Score	D	-	-	D	D	C
Market Cap	1.96 B	2.78 B	24.61 B	3.66 B	47.60 B	690.42 M
# of Analysts	7	6	13	6	7	1
Dividend Yield	8.43%	4.64%	1.74%	11.56%	5.66%	27.03%
Value Score	B	-	-	C	C	A
Cash/Price	0.03	0.03	0.04	0.03	0.08	0.05
EV/EBITDA	16.10	16.06	14.24	14.35	16.58	7.62
PEG Ratio	2.18	4.05	2.07	5.27	2.68	NA
Price/Book (P/B)	NA	1.97	3.38	1.26	15.67	0.94
Price/Cash Flow (P/CF)	8.24	12.63	13.75	8.73	12.56	2.03
P/E (F1)	8.69	14.45	19.09	7.17	11.77	3.36
Price/Sales (P/S)	3.01	5.97	2.68	3.93	8.31	1.02
Earnings Yield	11.68%	6.90%	5.24%	13.96%	8.50%	29.73%
Debt/Equity	-43.53	1.05	0.72	1.77	8.77	4.12
Cash Flow (\$/share)	3.88	2.26	6.94	2.97	11.83	1.82
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	1.61%	2.99%	10.56%	0.04%	6.96%	-5.58%
Proj. EPS Growth (F1/F0)	2.23%	2.38%	7.57%	1.94%	4.41%	-19.71%
Curr. Cash Flow Growth	6.35%	3.10%	14.73%	-20.68%	11.00%	-23.43%
Hist. Cash Flow Growth (3-5 yrs)	-3.71%	9.77%	9.00%	-4.36%	7.40%	-0.08%
Current Ratio	0.57	1.06	1.24	0.78	3.34	0.47
Debt/Capital	NA%	51.19%	42.99%	63.96%	89.72%	76.37%
Net Margin	39.45%	24.75%	11.14%	8.76%	40.23%	5.72%
Return on Equity	-96.44%	5.94%	17.16%	2.69%	66.93%	4.61%
Sales/Assets	0.15	0.13	0.55	0.10	0.18	0.16
Proj. Sales Growth (F1/F0)	2.16%	2.16%	4.16%	2.86%	1.48%	-0.69%
Momentum Score	D	-	-	C	D	B
Daily Price Chg	1.98%	0.39%	0.89%	1.25%	0.98%	-1.07%
1 Week Price Chg	-1.07%	-0.42%	0.39%	-3.25%	-0.39%	1.45%
4 Week Price Chg	5.09%	1.09%	2.65%	-4.88%	2.19%	1.09%
12 Week Price Chg	-15.30%	-3.95%	7.55%	-7.36%	-3.82%	-14.75%
52 Week Price Chg	-36.32%	5.99%	22.12%	-43.54%	-14.27%	-30.58%
20 Day Average Volume	796,562	738,236	1,536,375	2,914,876	1,346,094	3,196,356
(F1) EPS Est 1 week change	-0.15%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.15%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.35%	-0.59%	-0.40%	-0.74%	-0.59%	-1.79%
(Q1) EPS Est Mthly Chg	-1.20%	0.00%	0.00%	0.00%	0.00%	NA

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	F
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.

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