

Taubman Centers, Inc. (TCO)

\$44.74 (As of 03/17/20)

Price Target (6-12 Months): **\$47.00**

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:F

Value: F

Growth: D

Momentum: C

Summary

Taubman Centers has announced the completion of sale of interest in CityOn.Xi'an to Blackstone for \$91 million. The sale denotes Taubman Asia's third and final closing under the Blackstone transactions proclaimed last year. Moreover, in February, Simon Property Group agreed to acquire the former in a deal valued at \$3.6 billion. It represented a 19% premium to total enterprise value. This transaction is expected to close in mid-2020. The company reported a better-than-anticipated FFO per share performance in fourth-quarter 2019 on top-line growth. Its solid retail real estate portfolio, high-quality retailers in tenant roster and diligent restructuring measures augur well, though the choppy retail real estate environment is a pressing concern. Its shares have declined over the past year but narrower than its industry's fall.

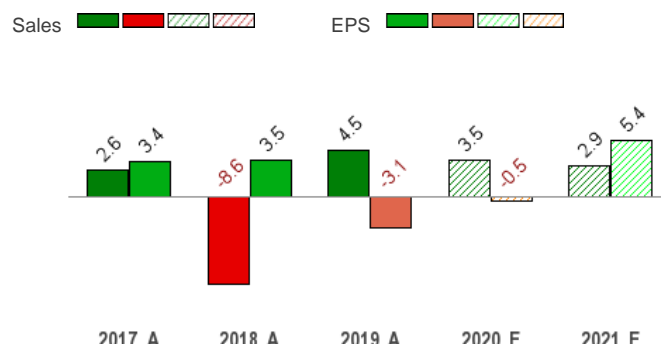
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.50 - \$26.24
20 Day Average Volume (sh)	4,321,459
Market Cap	\$2.7 B
YTD Price Change	43.9%
Beta	-0.45
Dividend / Div Yld	\$2.70 / 6.0%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 19% (206 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/05/2020
Earnings ESP	2.3%
P/E TTM	12.0
P/E F1	12.1
PEG F1	3.0
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	154 E	154 E	157 E	170 E	640 E
2020	148 E	148 E	150 E	161 E	622 E
2019	149 A	150 A	145 A	160 A	601 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.95 E	\$0.94 E	\$0.96 E	\$1.04 E	\$3.89 E
2020	\$0.91 E	\$0.90 E	\$0.91 E	\$0.98 E	\$3.69 E
2019	\$0.93 A	\$0.94 A	\$0.88 A	\$0.97 A	\$3.71 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/17/2020. The reports text is as of 03/18/2020.

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 and Washington, D.C.

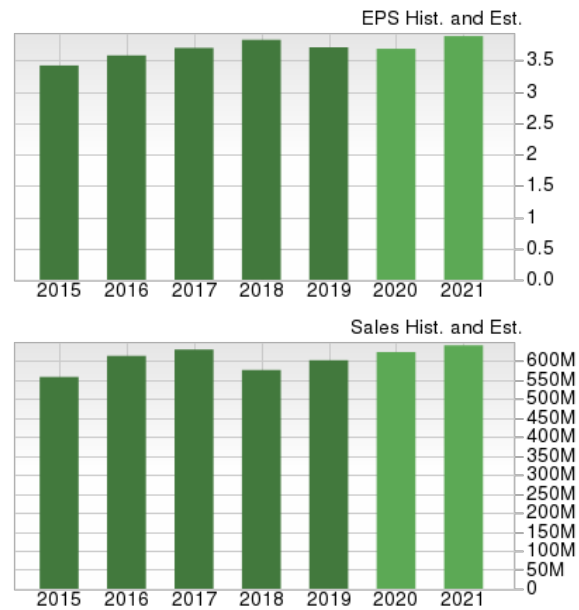
Moreover, the company has an operating arm, Taubman Properties Asia LLC and its subsidiaries (Taubman Asia). This arm, headquartered in Hong Kong, serves as the platform for Taubman's expansion plans in China and South Korea.

Currently, Taubman enjoys ownership, management and/or leasing of 26 regional, super-regional and outlet shopping centers in the United States and Asia.

On Feb 10, Simon Property Group agreed to acquire Taubman Centers in a deal valued at \$3.6 billion. Simon Property will buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Simon Property will acquire all of Taubman common stock for \$52.50 per share in cash. Moreover, the Taubman family will sell one-third of its ownership interest at the transaction price and remain a 20% partner in TRG.

On Feb 28, Taubman Centers announced completion of sale of 50% of Taubman Asia's interest in CityOn.Xi'an to real estate funds managed by Blackstone Group Inc. for \$91 million. The sale denotes Taubman Asia's third and final closing under the Blackstone transactions proclaimed last year.

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.
- ▲ 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. 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.
- ▲ 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.
- ▲ On Feb 10, Simon Property Group announced that it has agreed to acquire Taubman Centers in a deal valued at \$3.6 billion. For Taubman shareholders, the deal, if materializes, is a welcome move. The transaction price of \$52.50 per share in cash denoted a 51% premium to Taubman Centers' closing price on Feb 7. Also, it represented a good 19% premium to total enterprise value, which includes debt and preferred equity. TRG's capacity to invest in innovative retail environments for retailers and consumers will get a boost, helping in the delivery of attractive shopping and entertainment experiences to consumers.
- ▲ 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.

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 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 have been 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. Furthermore, 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. In addition, given its international presence, the company often faces unfavorable foreign currency movements, which hamper NOI growth.
- ▼ 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.

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 Q4 FFO & Revenues Beat Estimates

Taubman Centers reported fourth-quarter 2019 adjusted FFO per share of 97 cents, beating the Zacks Consensus Estimate of 94 cents. The figure also compares favorably with the year-ago quarter's reported tally of 91 cents.

Moreover, adjusted revenues, including rental revenues and overage rents for consolidated businesses, came in at around \$159.7 million, surpassing the Zacks Consensus Estimate of \$159.6 million.

For the full year, Taubman Centers reported adjusted FFO per share of \$3.71, indicating a 3.1% year-over-year decline on revenues of \$600.9 million.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	0.06%
EPS Surprise	3.19%
Quarterly EPS	0.97
Annual EPS (TTM)	3.72

Quarter in Detail

Comparable center NOI (excluding lease cancellation income) edged down 0.1% year over year. For the period ended Dec 31, 2019, the trailing 12-month releasing spread per square foot was down 1.1%. Results were impacted by a certain number of deals having an average lease term of less than two years. Excluding these leases, the releasing spread was 3.2%.

Comparable center tenant sales per square foot were up 3.1% in the fourth quarter, while average rent per square foot of \$55.98 inched up 0.8%.

As of Dec 31, 2019, leased space in comparable centers was 95.7%, down 0.7% from Dec 31, 2018. Additionally, ending occupancy in comparable centers of 94.3% at the year-end marked a 0.6% decline from the prior-year end. Notably, occupancy and leased space performance was impacted by the Stamford Town Center, which is being marketed for sale, along with the Forever 21 store at The Mall at Short Hills (Short Hills, NJ) that closed in late December.

Portfolio Activity

Taubman Centers accomplished the sale of 50% of Taubman Asia's interest in CityOn.Zhengzhou (Zhengzhou, China) in December to real estate funds managed by the Blackstone Group, Inc. for \$89 million. The company, however, retained a 24.5% ownership stake in the center. Net proceeds of \$47.5 million were received by the company, which were utilized for debt repayment.

Further, in line with Taubman's strategy to sell 50% of its three Asia-based shopping centers to Blackstone, the former expects to complete the sale of Taubman Asia's 50% interest in CityOn.Xi'an (Xi'an, China) to Blackstone in first-quarter 2020.

Liquidity

Taubman Centers exited fourth-quarter 2019 with cash and cash equivalents of nearly \$102.8 million, up from the \$48.4 million reported at the end of December 2018.

Recent News

Taubman Concludes Sale of Interest in CityOn.Xi'an to Blackstone – Feb 28, 2020

Taubman Centers announced completion of sale of 50% of Taubman Asia's interest in CityOn.Xi'an to real estate funds managed by Blackstone Group Inc. for \$91 million. Following the allocation of property-level debt, taxes and transaction costs, the company expects net proceeds to Taubman are expected to be roughly \$51 million.

As a result of the sale, Taubman will enjoy ownership a 25% beneficial interest in the shopping center. The sale denotes Taubman Asia's third and final closing under the Blackstone transactions proclaimed last year.

Simon Property to Acquire Taubman Centers in \$3.6B Deal – Feb 10, 2020

Retail REIT Simon Property Group has agreed to acquire Taubman Centers, in a deal valued at \$3.6 billion. Simon Property will buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Simon Property will acquire all of Taubman common stock for \$52.50 per share in cash. Additionally, the Taubman family will sell one-third of its ownership interest at the transaction price and remain a 20% partner in TRG.

TRG is engaged in the ownership, management and/or leasing of 26 super-regional shopping centers in the United States and Asia. It will continue being managed by the current executive team, under the leadership of Taubman chairman, president and chief executive officer, Robert S. Taubman, in association with Simon, the company noted.

For Simon Property, which expects to fund the total cash consideration of \$3.6 billion with existing liquidity, the deal is expected to be at least 3% accretive to its FFO per share on an annualized basis, starting immediately upon consummation of the transaction.

For Taubman shareholders, this is a welcome move as the transaction price of \$52.50 per share in cash denoted a 51% premium to Taubman Centers' closing price on Feb 7. Also, it represented a good 19% premium to total enterprise value, which includes debt and preferred equity. TRG's capacity to invest in innovative retail environments for retailers and consumers will get a boost, helping in the delivery of attractive shopping and entertainment experiences to consumers.

Subject to a number of approvals, including two-thirds of the outstanding Taubman voting stock and a majority of the outstanding Taubman voting stock not held by the Taubman family as well as other customary closing conditions, this transaction is expected to close in mid-2020. Notably, the Taubman family, representing around 29% of the outstanding Taubman voting stock, has already decided to vote in favor of the transaction.

Dividend Update

On Mar 5, Taubman Centers announced a regular quarterly cash dividend of 67.50 cents per share of common stock. The dividend will be paid on Mar 31, to shareholders of record as of Mar 16, 2020.

Valuation

Taubman Centers' shares have been down 11.3% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 32.5% and 27.9% in the past year, respectively.

The S&P 500 index is down 16.5% in the past year.

The stock is currently trading at 12.00X forward 12-month FFO, which compares to 9.88X for the Zacks sub-industry, 10.15X for the Zacks sector and 13.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.06X and as low as 7.08X, with a 5-year median of 15.76X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$47 price target reflects 12.61X FFO.

The table below shows summary valuation data for TCO.

Valuation Multiples - TCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12	9.88	10.15	13.87
	5-Year High	24.06	19.44	16.21	19.34
	5-Year Low	7.08	9.88	10.15	13.87
	5-Year Median	15.76	14.97	13.97	17.42
P/S F12M	Current	4.38	5.52	5.99	2.55
	5-Year High	8.3	13.91	6.64	3.43
	5-Year Low	2.61	5.52	5.39	2.54
	5-Year Median	5.97	8.21	6.04	3

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 253)



Top Peers

Federal Realty Investment Trust (FRT)	Neutral
Kimco Realty Corporation (KIM)	Neutral
Macerich Company (The) (MAC)	Neutral
Pennsylvania Real Estate Investment Trust (PEI)	Neutral
Simon Property Group, Inc. (SPG)	Neutral
Washington Prime Group Inc. (WPG)	Neutral
CBL & Associates Properties, Inc. (CBL)	Underperform
Tanger Factory Outlet Centers, Inc. (SKT)	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	F	-	-	D	C	C
Market Cap	2.74 B	1.39 B	17.72 B	1.27 B	18.86 B	246.69 M
# of Analysts	7	6	13	6	9	1
Dividend Yield	6.03%	7.77%	2.51%	33.30%	14.27%	37.88%
Value Score	F	-	-	C	B	A
Cash/Price	0.03	0.02	0.06	0.06	0.02	0.13
EV/EBITDA	21.58	12.39	10.97	10.97	10.15	8.08
PEG Ratio	3.10	3.62	1.54	NA	1.12	NA
Price/Book (P/B)	NA	1.13	2.39	0.45	6.57	0.35
Price/Cash Flow (P/CF)	6.98	6.98	9.36	2.86	5.40	0.89
P/E (F1)	12.37	8.78	13.98	2.65	4.76	1.20
Price/Sales (P/S)	4.14	3.74	1.87	1.37	3.28	0.37
Earnings Yield	8.25%	11.38%	7.13%	37.74%	21.00%	83.33%
Debt/Equity	-22.27	0.98	0.70	1.88	8.42	4.35
Cash Flow (\$/share)	6.41	2.19	7.01	3.15	10.91	1.49
Growth Score	D	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	1.65%	1.65%	10.85%	-0.98%	6.27%	-7.58%
Proj. EPS Growth (F1/F0)	-0.65%	0.82%	5.38%	-3.86%	2.66%	-6.78%
Curr. Cash Flow Growth	65.38%	1.70%	6.15%	5.81%	-7.76%	-18.05%
Hist. Cash Flow Growth (3-5 yrs)	-16.80%	5.61%	8.55%	-2.91%	5.60%	-5.54%
Current Ratio	0.75	1.15	1.24	0.84	1.08	0.48
Debt/Capital	NA%	50.79%	42.57%	65.29%	89.33%	77.17%
Net Margin	33.47%	23.52%	11.57%	10.44%	36.52%	0.12%
Return on Equity	-94.55%	6.53%	16.74%	3.28%	65.24%	0.10%
Sales/Assets	0.15	0.13	0.54	0.10	0.18	0.15
Proj. Sales Growth (F1/F0)	3.22%	0.59%	3.33%	4.86%	-1.57%	-0.21%
Momentum Score	C	-	-	B	A	D
Daily Price Chg	7.24%	0.76%	5.62%	-6.73%	-10.53%	0.76%
1 Week Price Chg	-6.91%	-18.44%	-11.01%	-30.88%	-24.60%	-27.04%
4 Week Price Chg	-15.87%	-39.90%	-28.54%	-61.71%	-57.71%	-53.19%
12 Week Price Chg	48.98%	-41.17%	-25.74%	-65.83%	-59.62%	-62.61%
52 Week Price Chg	-11.34%	-38.06%	-18.88%	-78.90%	-66.06%	-74.66%
20 Day Average Volume	4,321,459	1,711,030	3,651,283	5,184,510	4,760,732	8,824,034
(F1) EPS Est 1 week change	0.00%	-0.03%	0.00%	-0.83%	0.08%	0.00%
(F1) EPS Est 4 week change	0.12%	-0.65%	-0.58%	-0.78%	-0.32%	-6.36%
(F1) EPS Est 12 week change	-1.71%	-2.05%	-1.18%	-5.91%	-2.05%	-6.36%
(Q1) EPS Est Mthly Chg	0.22%	-0.55%	-0.77%	-3.63%	-1.98%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	C
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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