

Taubman Centers, Inc. (TCO)

\$38.42 (As of 07/17/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/07/98)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

Taubman Centers has reopened all of its operating properties in the United States and Asia. In fact, per management, around 85% of stores at the company's portfolio have reopened. Its shareholders also approved and adopted the merger agreement with Simon Property. Moreover, liquidity-enhancement initiatives like additional borrowings and reduction of expected cash outflows provide Taubman Centers' financial flexibility for near-term operations. However, the company, which is already battling store closures and bankruptcy woes, has been hit hard by declining footfall at its properties amid social-distancing mandates and higher e-commerce adoption. This resulted in reduced mall tenant sales as well as rent deferrals and relief requests by tenants. Also, shares of the company have underperformed its industry over the past three months.

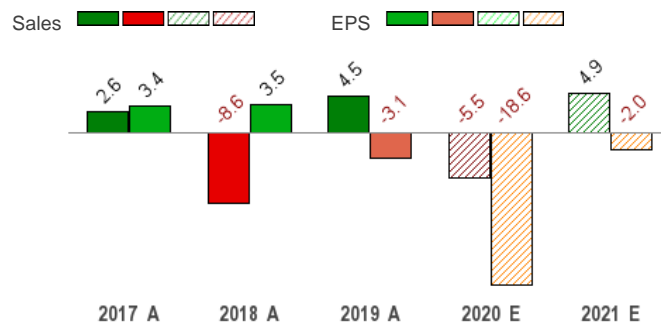
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.40 - \$26.24
20 Day Average Volume (sh)	1,188,863
Market Cap	\$2.4 B
YTD Price Change	23.6%
Beta	-0.08
Dividend / Div Yld	\$2.70 / 7.0%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 14% (217 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-13.7%
Expected Report Date	07/23/2020
Earnings ESP	1.1%
P/E TTM	10.5
P/E F1	12.7
PEG F1	3.2
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	148 E	146 E	146 E	158 E	596 E
2020	147 A	143 E	141 E	152 E	568 E
2019	149 A	150 A	145 A	160 A	601 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.67 E	\$0.73 E	\$0.77 E	\$0.85 E	\$2.96 E
2020	\$0.88 A	\$0.69 E	\$0.72 E	\$0.80 E	\$3.02 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 07/17/2020. The reports text is as of 07/20/2020.

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 malls 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.

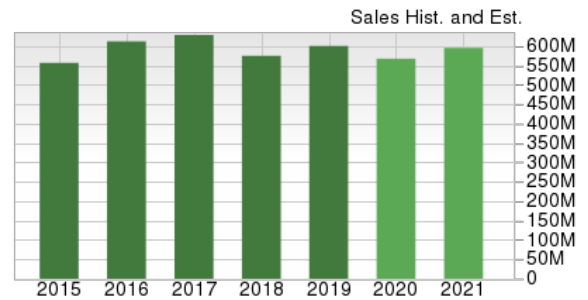
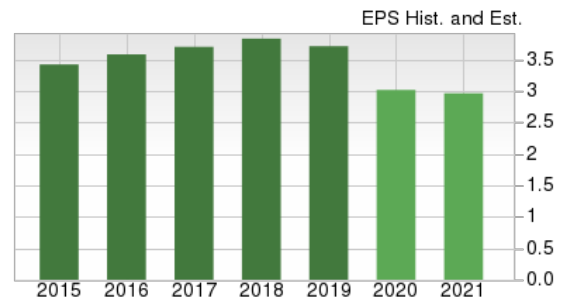
Moreover, the company has an operating arm, Taubman Properties Asia LLC and its subsidiaries (Taubman Asia). This arm, headquartered in Hong Kong, serves as the platform for Taubman Centers' expansion plans in China and South Korea.

Currently, Taubman Centers enjoys ownership, management and/or leasing of 24 regional, super-regional and outlet shopping centers in the United States, Puerto Rico, South Korea and China.

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 Centers' common stock for \$52.50 per share in cash. Moreover, the Taubman Centers family will sell one-third of its ownership interest at the transaction price and remain a 20% partner in TRG. On Jun 10, the company received a notice to terminate the deal.

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.
- ▲ Amid the challenging times in the retail real estate market, Taubman Centers has been undertaking restructuring measures to reduce 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 focused on cross-sell initiatives. 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 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 Centers' 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. During the first quarter, Taubman Centers incurred transaction costs of \$6.4 million. Following the merger termination notice that the company received from Simon Property Group, Taubman Centers' shareholders approved and adopted the previously announced merger agreement.
- ▲ 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.
- ▲ Taubman Centers undertook several liquidity enhancement initiatives amid the potential disruption related to the COVID-19 pandemic. The company exited first-quarter 2020 with a cash balance of \$395.1 million. In March, the company raised \$350 million on its \$1.1-billion primary unsecured revolving line of credit, resulting in a total of \$970 million outstanding as of Mar 31, 2020. Additionally, it closed a one-year extension of its \$65-million secured revolving line of credit. Moreover, it delayed planned capital expenditures by \$100-\$110 million. Hence, additional borrowing on the company's line of credit and reduction of expected cash outflows provide it ample liquidity for near-term operations. Moreover, with five unencumbered shopping center properties in its portfolio, Taubman Centers is likely to enjoy accessibility to secured and unsecured debt markets and maintain availability on the line.

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.
- ▼ Furthermore, the escalating number of coronavirus cases forced several retailers to close stores to contain the spread of the virus. As a result, retail REITs, including Taubman Centers, which have already been battling store closures and bankruptcy issues, are experiencing the brunt. Accordingly, the company closed substantially all of its properties. In Asia, CityOn.Xi'an was closed for nearly a month and reopened on Feb 29. CityOn.Zhengzhou was closed for 10 days. These closures significantly affected first-quarter 2020 mall-tenant sales and reduced customer traffic. This is expected to have a significant adverse impact on the tenants' ability to pay rent obligations. As a result, in March and April, the company received request for rent relief or deferrals from its tenants. The company also noted that a substantial portion of April rental revenue receivables were outstanding and under negotiation.
- ▼ 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.
- ▼ Over the past three months, shares of Taubman Centers have lost 8.1% against the industry's rally of 14.9%. Moreover, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company as estimates have been revised 13.5% downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited 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 Q1 FFO Misses, Revenues Beat Estimates

Taubman Centers reported first-quarter 2020 FFO per share of 88 cents, missing the Zacks Consensus Estimate of 91 cents. The figure also compares unfavorably with the year-ago quarter's reported tally of 95 cents.

Decline in comparable-center NOI and rise in interest expense, along with lower ending occupancy in comparable centers, hurt results.

However, adjusted revenues, including rental revenues and overage rents for consolidated businesses, came in at \$147.4 million, surpassing the Zacks Consensus Estimate of \$145.9 million. Nonetheless, the reported figure slid about 8% year over year.

Quarter in Detail

Pro rata comparable center NOI (excluding lease cancellation income and using constant foreign exchange rates) edged down 1.5% year over year.

Comparable tenant sales per square foot decreased 11.6%, year over year. Trailing 12-month sales per square foot of \$955 was up 2% as compared with the same period ended Mar 31, 2019. Also, average rent per square foot for the quarter was \$62.12, marking a 2.3% decrease from the year-ago period's \$63.41.

As of Mar 31, 2020, leased space in comparable centers was 94.6%, down 0.9% from Mar 31, 2019. Additionally, ending occupancy in comparable centers of 91.9% was down 1.1%, year over year, at the end of the reported quarter.

Notably, in February, Taubman Centers closed the sale of Taubman Asia's 50% stake in CityOn.Xi'an to real estate funds managed by The Blackstone Group Inc., for \$91 million. Subsequent to the sale, Taubman Centers now owns a 25% interest in the property. The company received net proceeds of about \$48 million, which was used to pay its debt.

Liquidity

Taubman Centers exited first-quarter 2020 with cash and cash equivalents of \$395.1 million, up from the \$102.8 million reported at the end of December 2019.

This March, the company raised \$350 million on its \$1.1-billion primary unsecured revolving line of credit, resulting in a total of \$970 million outstanding as of Mar 31, 2020. This facility has a maturity date of February 2024, having two six-month extension options, and has a current interest rate of LIBOR plus 1.375%.

Also, the company closed a one-year extension of its \$65-million secured revolving line of credit. This revolving line of credit had a maturity date of Apr 25, 2020. The facility continues to bear interest at a rate of LIBOR plus 1.4 % and all other key terms remain unchanged. As of May 5, there had not been any borrowings on this line of credit.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	1.07%
EPS Surprise	-3.30%
Quarterly EPS	0.88
Annual EPS (TTM)	3.67

Recent News

Taubman Completely Reopens All Operating Properties – Jun 30, 2020

Taubman Centers announced the reopening of all of its operating properties in the United States and Asia. In fact, per management, around 85% of stores at the company's portfolio have reopened, while others continue to open every day.

In fact, as the pandemic eases its grip and the economy reopens, the company has gradually restarted operations at its shopping centers by complying with all local, state and federal laws, and adopting necessary enhanced safety protocols.

In addition to the 21 centers across the United States, Taubman Centers' three Asia shopping centers — CityOn.Xi'an, CityOn.Zhengzhou and Starfield Hanam (in Hanam, South Korea) — have been operating since the February end. In aggregate, around 95% of stores in Asia have reopened and this is driving comparable sales per square foot to match the 2019 level.

Taubman Gets Shareholder Approval for Simon Property Merger – Jun 25, 2020

Following the merger termination notice that Taubman Centers received from Simon Property Group, the former held a special meeting of shareholders, asking them to approve the merger agreement as of Feb 9, 2020.

Its shareholders have approved and adopted the previously announced merger agreement among the company, The Taubman Realty Group Limited Partnership, Simon Property and certain other parties.

In fact, 99.7% of the total shares voted were in favor of the merger agreement and transactions, which comprised 84.7% of the outstanding shares entitled to vote. Moreover, shares that were voted in favor consisted of 78.3% of the outstanding shares entitled to vote that were held by shareholders other than the Taubman family members.

With the shareholder approval, the company has satisfied the final condition precedent to closing of the merger transaction. In fact, it is prepared to close the transactions with Simon Property on Jun 30, 2020.

Further, Taubman Centers is of the opinion that the acquirer's merger termination notice as of Jun 10 is invalid and without merit, and that Simon is bound to the transaction in all respects. In fact, the company plans to hold Simon to its obligations per the agreement, and will pursue to challenge Simon's termination and legal claims.

Taubman Centers Receives Merger Termination Notice From Simon Property Group - Jun 10, 2020

Taubman Centers confirmed receiving a notice to terminate the previously-announced acquisition of Taubman, TRG and other parties by Simon Property Group.

Nonetheless, Taubman Centers is of the opinion that the acquirer's merger termination is invalid and without merit, and that Simon is bound to the transaction in all respects. In fact, the company plans to hold Simon to its obligations as per the agreement and will pursue to challenge Simon's termination and legal claims.

Taubman Centers intends to resort to remedies to implement its contractual rights under the agreement, including the right to monetary damages and specific performance.

Dividend Update

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

Valuation

Taubman Centers' shares have been down 3% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 22.6% and 13.5%, respectively, over the past year.

The S&P 500 Index has been up 8.8% over the trailing 12-month period.

The stock is currently trading at 12.87X forward 12-month FFO, which compares with the 12.44X for the Zacks sub-industry, 16.39X for the Zacks sector and 22.84X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.39X and as low as 7.08X, with a 5-year median of 15.26X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 13.73X FFO.

The table below shows summary valuation data for TCO.

Valuation Multiples - TCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.87	12.44	16.39	22.84
	5-Year High	22.39	19.44	16.39	22.84
	5-Year Low	7.08	9.72	11.59	15.25
	5-Year Median	15.26	14.76	14.16	17.52
P/S F12M	Current	4.06	6.66	6.04	3.58
	5-Year High	8.13	13.91	6.66	3.58
	5-Year Low	2.61	5.43	4.96	2.53
	5-Year Median	5.74	8.17	6.06	3.02

As of 07/17/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (217 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Federal Realty Investment Trust (FRT)	Neutral	4
Kimco Realty Corporation (KIM)	Neutral	4
Macerich Company The (MAC)	Neutral	4
Pennsylvania Real Estate Investment Trust (PEI)	Neutral	4
Washington Prime Group Inc. (WPG)	Neutral	2
CBLAssociates Properties, Inc. (CBL)	Underperform	5
Tanger Factory Outlet Centers, Inc. (SKT)	Underperform	5
Simon Property Group, Inc. (SPG)	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	TCO	X Industry	S&P 500	MAC	SPG	WPG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	4	5	2
VGM Score	D	-	-	B	C	D
Market Cap	2.37 B	1.39 B	22.62 B	1.16 B	20.00 B	138.89 M
# of Analysts	4	7	14	7	9	1
Dividend Yield	7.03%	6.13%	1.82%	4.89%	8.33%	67.45%
Value Score	C	-	-	A	B	A
Cash/Price	0.17	0.15	0.07	0.55	0.18	0.29
EV/EBITDA	20.37	11.38	13.05	10.95	10.50	7.99
PEG Ratio	3.17	5.59	2.99	NA	1.18	NA
Price/Book (P/B)	NA	1.08	3.13	0.42	8.10	0.21
Price/Cash Flow (P/CF)	6.00	6.44	12.20	2.59	5.72	0.50
P/E (F1)	12.65	9.55	22.02	3.17	5.91	1.02
Price/Sales (P/S)	3.59	3.54	2.34	1.25	3.54	0.22
Earnings Yield	7.86%	10.48%	4.28%	31.54%	16.91%	98.65%
Debt/Equity	-17.56	1.18	0.75	2.19	11.16	4.70
Cash Flow (\$/share)	6.41	2.19	6.94	3.15	10.91	1.49
Growth Score	D	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	1.45%	1.39%	10.85%	-1.90%	5.18%	-9.79%
Proj. EPS Growth (F1/F0)	-18.73%	-12.92%	-9.37%	-27.20%	-12.36%	-38.14%
Curr. Cash Flow Growth	65.38%	0.37%	5.51%	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	1.93	2.49	1.30	3.05	3.60	0.50
Debt/Capital	NA%	54.42%	44.33%	68.70%	91.71%	78.30%
Net Margin	34.24%	22.53%	10.59%	10.40%	35.20%	1.99%
Return on Equity	-107.89%	6.04%	15.74%	3.38%	68.08%	1.77%
Sales/Assets	0.14	0.13	0.54	0.10	0.17	0.15
Proj. Sales Growth (F1/F0)	-5.82%	-5.72%	-2.44%	3.21%	-9.40%	-18.47%
Momentum Score	D	-	-	C	B	D
Daily Price Chg	-0.26%	-0.60%	0.36%	-3.65%	-0.79%	-1.17%
1 Week Price Chg	-1.53%	-5.59%	-0.41%	0.12%	-7.02%	-10.10%
4 Week Price Chg	2.86%	-10.75%	2.56%	-11.95%	-12.06%	-22.97%
12 Week Price Chg	0.16%	17.40%	15.49%	37.94%	17.40%	7.14%
52 Week Price Chg	-4.95%	-42.68%	-3.93%	-75.17%	-60.85%	-79.12%
20 Day Average Volume	1,188,863	1,185,273	2,236,294	5,622,081	7,292,783	5,488,344
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.07%	0.00%
(F1) EPS Est 4 week change	-13.67%	-1.49%	0.01%	-14.22%	-3.42%	2.82%
(F1) EPS Est 12 week change	-15.27%	-8.42%	-5.24%	-16.87%	-8.69%	-29.13%
(Q1) EPS Est Mthly Chg	-12.81%	-1.56%	0.00%	-15.53%	-0.13%	11.77%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

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

Value Score	C
Growth Score	D
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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