



Research Analysts:

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Recommendation: **BUY**

UConn Student Managed Fund

EastGroup Properties (NYSE: EGP)

March 14, 2022

Target Price: \$222.97
Current Price: \$190.51
Stop loss: \$152.41
52 Week High/Low: \$229.84/\$139.16

Market Cap (\$B): \$7.82 B
Dividend Yield: 1.91%
Beta: 0.88
FFOPS: \$6.15

P/E Ratio (TTM): 48.72
EV/EBITDA: 33.3
P/FFO: 30.75
Debt/EBITDA: 5.28

Company Overview

EastGroup Properties [EGP] is a real estate investment trust [REIT] focused on development, acquisition, and operation of industrial properties in major Sun Belt markets throughout the United States. It owns 448 industrial properties and has its corporate head office building in Jackson MS.

Portfolio includes:

- Development and value-add properties in lease-up and under construction includes ~50.9 million sq. ft.
 - Properties were 49% leased in 2021
- 98.7% leased to over 1,500 tenants with no single tenant accounting for more than 1% of income.

Period	% of Rent Collected ⁽¹⁾	% of Uncollected Rent Deferred to Future Period	% of Uncollected Rent With No Deferral Agreement
Quarterly			
Q1 2020	99.8%	0.0%	0.2%
Q2 2020	99.6%	0.3%	0.1%
Q3 2020	99.5%	0.2%	0.3%
Q4 2020	99.5%	0.1%	0.4%
Monthly			
October 2020	99.3%	0.2%	0.5%
November 2020	99.4%	0.1%	0.5%
December 2020	99.7%	0.1%	0.2%
January 2021	99.5%	0.0%	0.5%
February 2021 ⁽²⁾	95.1%	0.0%	4.9%

(1) Customer payments are received daily. The collection information presented is current through February 16, 2021, and the Company anticipates continuing to receive payments which will increase the % of Rent Collected.

(2) Represents the period of February 1, 2021 through February 16, 2021 and assumes collections from government-related tenants. For comparison, as of February 16, 2021, February rental receipts are slightly higher than the January rental receipts were as of January 16, 2021.

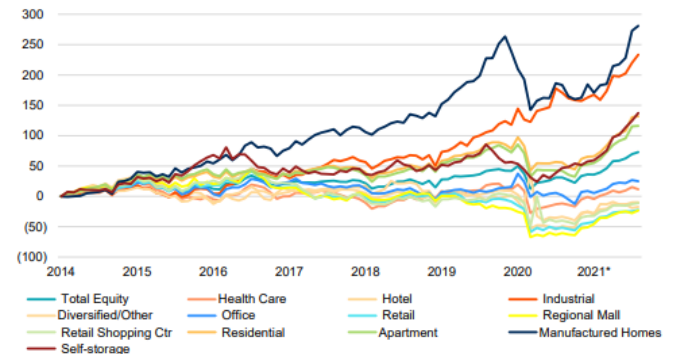
Industry Outlook

Looking ahead to 2022, much of the fundamentals remain the same. Industrial, infrastructure, data center, and even self-storage will continue to do well in 2022, while multifamily and health care will be mixed. However, retail will continue to suffer along with hotels, and to a lesser extent, office REITs. Despite the underperformance, REITs may be once again setting up for long-term outperformance. REITs have historically shown low correlation with the broader market and other asset classes, making them more attractive as volatility increases. REITs could also provide protection as investors are increasingly becoming concerned with inflation.

Covid-19 has turned out to be a net positive for industrial REITs. Industrial REIT performance is typically correlated to general consumer spending, leading to

concerns given the drop in consumer spending and the unfolding recession. However, the main driver of industrial REIT demand currently is e-commerce, which requires approximately three times the amount of warehouse and logistic space compared to traditional brick-and-mortar retail. While e-commerce spending was already growing three times as fast as traditional retail before the pandemic, this trend was greatly accelerated due to the lockdowns. Furthermore, we think the lockdowns also precipitated a "step-change" in e-commerce, bringing in a new cohort of shoppers who previously did not shop online. This effectively accelerated our thesis of e-commerce penetration by years within the span of a few months

REITS INDEX PERFORMANCE BY TYPE (percent)



Investment Thesis

- ✓ Sustainability of the e-commerce trend driving demand for EGP properties
- ✓ Increased industrial storage space utilization due to new pandemic e-commerce demand
- ✓ Maintenance of strong pricing power in fast-growing Sun Belt markets

Investment Risks

- Faster-than-anticipated rise in industrial storage supply
- Excess industrial capacity
- Delta variant has lowered traffic into retail stores
- Drop in demand for industrial space
- Sharp rise in interest rates

Financial Performance

Breakdown	TTM	12/31/2021	12/31/2020	12/31/2019	12/31/2018
> Total Revenue	409,475	409,475	363,023	331,387	300,392
Cost of Revenue	115,078	115,078	103,368	93,274	86,394
Gross Profit	294,397	294,397	259,655	238,113	213,998
> Operating Expense	143,503	143,503	131,424	121,541	105,442
Operating Income	150,894	150,894	128,231	116,572	108,556
> Net Non Operating Interest Inc...	-32,945	-32,945	-33,927	-34,463	-35,106
> Other Income Expense	39,689	39,689	14,087	41,231	15,186
Pretax Income	157,638	157,638	108,391	123,340	88,636
> Net Income Common Stockhold...	157,557	157,557	108,363	121,662	88,506
Diluted NI Available to Com Stock...	157,557	157,557	108,363	121,662	88,506

Valuation Assumptions & Key Financials

We recommend a BUY rate for EGP based on a target price of \$222.97 per share. This target price reflects a 17.04% margin of safety based on its closing price of \$190.51 on March 09, 2022. We calculated WACC as 6.02%, assuming a terminal growth rate of 2.5% and a 33x exit EV/EBITDA.

Perpetuity Growth Method - Value per Share		Terminal EBITDA Method	
Free Cash Flow at year 2027	387.23	Terminal EBITDA at year 2027	412.21
WACC	6.02%	WACC	6.02%
Perpetuity Growth Rate	2.50%	Exit Enterprise Value / EBITDA	33.00
Perpetuity Value in 5 years	11279.52	Terminal Value in 5 years	13603.09
Present Value of Perpetuity (@ WACC)	7943.12	Present Value of Terminal Value (@ WACC)	9579.40
(+) Present Value of Free Cash Flows (@ WACC)	1642.65	(+) Present Value of Free Cash Flows (@ WACC)	1642.65
(=) Current Enterprise Value	9585.77	(=) Current Enterprise Value	11222.05
(-) Long Term Debt	1451	(-) Long Term Debt	1451
(+) Cash and Marketable Securities	4	(+) Cash and Marketable Securities	4
(=) Equity Value	8139	(=) Equity Value	9775
Shares outstanding	41	Shares outstanding	41
Estimated Value per Share (USD)	198.51	Estimated Value per Share (USD)	238.42
Current Price (USD)	190.51	Current Price (USD)	190.51
Estimated Upside	8.00	Estimated Upside	47.91

ESG Considerations

EGP has a low overall ESG rating of 11.48. The company has no significant material ESG issue to report. The Company strives to support sustainability through its commitment to build high performance and environmentally responsible properties.

Sustainability ⓘ

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

! No Data

Top 3 Material ESG Issues

Overall Overall Overall

ESG Risk Rating is as of Mar 02, 2022. Highest Controversy Level is as of Feb 08, 2022. Sustainalytics Subindustry: REITs. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/)