



REITs

Analyst: Carol L. Kemple
502.588.1839 / CKemple@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 / GMoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CBL - NYSE (as of 8/3/2017)	\$8.35
Price Target	\$17.50
52-Week Range	\$7.15 - \$14.30
Shares & Units Outstanding (mm)	199
Market Cap. (\$mm)	\$1,662
3-Mo. Average Daily Volume (000)	4,876
Institutional Ownership	95%
Debt/Total Market Capital (6/17)	67.4%
Dividend	\$1.06
Dividend Yield	12.7%
EBITDA to to Fixed Charges	2.4x

FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.68		\$0.53	A \$0.51	\$0.52
2Q	\$0.73		\$0.58	A \$0.56	\$0.53
3Q	\$0.56	\$0.53	\$0.56	\$0.55	\$0.58
4Q	\$0.72	\$0.59	\$0.60	\$0.62	\$0.61
Year	\$2.69	\$2.20	\$2.28	\$2.24	\$2.23
P/FFO	3.1x		3.7x		3.7x

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$263		\$238	A \$239	\$239
2Q	\$255		\$225	A \$249	\$233
3Q	\$252	\$246	\$244	\$254	\$251
4Q	\$258	\$254	\$252	\$263	\$258
Year	\$1,028	\$983	\$964	\$1,010	\$985

Revenue numbers include other revenue and management, development and leasing fees.
Quarterly numbers may not add up to full year numbers due to rounding.
Previous FFO and Revenue numbers have not been restated.

Company Description: CBL & Associates Properties, Inc., headquartered in Chattanooga, Tennessee, owns, holds interest in or manages 121 properties (including 78 regional malls/open-air centers) totaling 75.5 million square feet in 27 states.

CBL & Associates Properties, Inc.

CBL -- NYSE – Long-term Buy -- 4

Second Quarter Results; Adjusting Suitability Rating

- **Second quarter FFO was \$0.58 compared to \$0.73 per share in the year ago period. Adjusted FFO per share was \$0.50 versus \$0.59 in the year ago period.** Our FFO per share estimate was \$0.54 versus the consensus of \$0.53.
- **Portfolio occupancy was down year-over-year.** CBL's total occupancy was 91.6% versus 92.6%. CBL's mall portfolio occupancy declined 140 basis points to 90.2%.
- **Same-store sales for small shop tenants in the company's stabilized malls declined 2.4% for the twelve months ended June 30, 2017.**
- **Guidance changed.** Management increased 2017 FFO per share guidance from its previous range of \$2.20 - \$2.26 to a range of \$2.29 - \$2.35. 2017 adjusted FFO per share guidance of \$2.18 - \$2.24 was maintained. Guidance assumes \$10.0 million - \$12.0 million of outparcel sales, 75 to 125 basis points lower total portfolio occupancy at year end, G&A of \$62 million to \$64 million, and same-center NOI growth of -2.0% to 0.0%. Guidance does not account for any future unannounced acquisitions or dispositions or capital market activity. Our revised 2017 FFO per share estimate is \$2.28.
- **We are changing our suitability rating to 4.** We believe the share price is more volatile than it has been in the past with all of the negative narrative surrounding bricks and mortar retail in the media.
- **We maintain our Long-term Buy rating and our two year price target of \$17.50.** We believe CBL's common shares are sharply undervalued.

Note Important Disclosures on Pages 7 and 8.
Note Analyst Certification on Page 7.

Second Quarter Review

Minimum (base) rent declined 5.7% to \$157.6 million versus \$167.2 million in last year's second quarter, representing 70.0% of total real estate revenues versus 68.3% (please see income statement on page 4). Tenant reimbursements, the next biggest revenue item, were down 11.2% to \$62.2 million versus \$70.1 million and represented 103.0% of real estate operating expenses versus 106.2% a year ago.

CBL's total occupancy was down 100 basis points from the year ago period to 91.6%. CBL's mall portfolio occupancy declined 140 basis points to 90.2%.

CBL Occupancy & Same-Store Comparison

	Occupancy Performance		Same-Store NOI (Y-O-Y Changes)
	6/30/2017	6/30/2016	2Q17
Mall Portfolio	90.2%	91.6%	-2.1%
Associated Centers	95.5%	95.6%	0.6%
Community Centers	97.0%	96.8%	13.2%
Office and Other			21.4%
Total	91.6%	92.6%	-1.3%

Source: Company reports as of June 30, 2017

Total real estate operating expenses declined 8.0%. Total same-store NOI was down 1.3% year over year. FFO per share was \$0.58 versus \$0.73 in the year ago quarter. Adjusted FFO per share was \$0.50 versus \$0.59 last year.

Overview

Retail/Leasing Environment - Leasing spreads were down 0.80% in the quarter. Spreads were positive on new leases but down on renewal leases. Same-store sales per square foot for the trailing twelve months for mall tenants occupying 10,000 square feet or less declined 2.4%. The second quarter was negatively impacted by store closings.

Management commented that leasing demand was strong. The company's malls are evolving more into suburban town centers with more emphasis being placed on dining, entertainment, off-price, health and wellness and other non-retail tenants than in the past. We believe the percent of mall space devoted to apparel will continue to decline.

Talks regarding anchor redevelopment plans appear to be going well. CBL is seeing interest from health and fitness, sporting good, discount apparel, restaurants and other non-retail tenants. The planned anchor redevelopments will likely span over multiple years, spreading out the cost.

Acquisitions and Divestitures - During the quarter CBL sold two Tier 3 malls, one outlet center and two office buildings for a gross sales price (at CBL's share) of \$157.25 million. The company has entered into a binding contract to sell its remaining 25% interest in River Ridge Mall in Lynchburg, Virginia for \$9.0 million.

New Construction, Expansions, & Redevelopments - As of June 30, CBL had 7 projects in its development pipeline. These include expansions and redevelopments. All projects are expected to be completed by Spring 2018. Initial yields for these projects range from 6.3% to 11.5%.

Financial Update - CBL has reduce its debt by more than \$330 million compared to the year ago period. As of June 30, CBL had \$172.5 million and \$694.5 million of debt coming due in 2017 and 2018, respectively, assuming all extension options have been exercised. We believe these maturities are manageable.

In July, CBL extended and modified two loans previously expiring in 2018. One with a balance of \$400 million was increased to a balance of \$490 million until July 2018, when it will be reduced to \$300 million for the remainder of its term. New borrowings on the loan were used to reduce the balance on the company's unsecured lines of credit. The new loan matures July 2020, with two one year extension options; the 2nd option is at the lenders' sole discretion. The interest rate on the loan is 150 basis points over LIBOR.

The other unsecured term loan, which has a balance of \$50 million, was modified to a new \$45 million term loan. The loan matures June 2021 with an additional one year extension option at CBL's discretion. The interest rate of this loan is 165 basis points over LIBOR.

Guidance & Estimates - Management increased 2017 FFO per share guidance from its previous range of \$2.20 - \$2.26 to a range of \$2.29 - \$2.35. 2017 adjusted FFO per share guidance of \$2.18 - \$2.24 was maintained. Guidance assumes \$10.0 million - \$12.0 million of outparcel sales, 75 to 125 basis points lower total portfolio occupancy at year end, G&A of \$62 million to \$64 million, and same-center NOI growth of -2.0% to 0.0%. Guidance does not account for any future unannounced acquisitions or dispositions or capital market activity. Our 2017 FFO per share estimate is \$2.28.

Quarterly Income Statement

(in thousands, except per share amounts)	2Q17	2Q16	% Change
Minimum Rent	\$157,609	\$167,216	-5.7%
Percentage Rent	1,738	2,692	-35.4%
Other Rents	3,729	4,819	-22.6%
Tenant Reimbursements	62,231	70,096	-11.2%
Total Real Estate Revenues	225,307	244,823	-8.0%
Property Operating Costs	30,041	31,060	-3.3%
Real Estate Taxes	18,687	22,834	-18.2%
Maintenance and Repairs	11,716	11,790	-0.6%
Total Real Estate Operating Expenses	60,444	65,684	-8.0%
Real Estate Operating Income (NOI)	164,863	179,139	-8.0%
Management, Development and Leasing Fees	2,577	4,067	-36.6%
Other Revenues	1,349	6,075	-77.8%
General and Administrative Expenses	15,752	16,475	-4.4%
Loss on Impairment of Real Estate Assets	43,203	43,493	-0.7%
Other Expenses	5,019	5,052	-0.7%
Depreciation and Amortization Expense	82,509	72,205	14.3%
Income (Loss) From Operations	22,306	52,056	
Interest Expense	55,065	53,187	3.5%
Interest & Other Income	31	251	
Impairment of Investment			
Gain on Extinguishment of Debt	20,420		
Gain (Loss) on Investments	(5,843)		
Gain (Loss) on Sales of Real Estate Assets			
Income Tax (Provision) Benefit	2,920	51	
Equity in Earnings of Unconsolidated Affiliates	6,325	64,349	
Net Before Discontinued, Extraord. Items, Minority Interest	(8,906)	63,520	
Operating Income (Loss) of Discontinued Operations			
Gain on Discontinued Operations	79,533	9,577	
Extraordinary Items / Charges			
Net Income Attributable to Noncontrolling Interest	(29,231)	(10,178)	
Dividends on Preferred Shares	(11,223)	(11,223)	
Net (Loss) Applicable to Common Shareholders	\$30,173	\$51,696	
Net EPS (diluted)	\$0.18	\$0.30	
Avg. Shares Outstanding (diluted)	171,095	170,792	0.2%

Funds From Operations	2Q17	2Q16	% Change
Net (Loss) Applicable to Common Shareholders	\$30,173	\$51,696	
Noncontrolling Interest in Earnings of Operating Partnership	5,093	8,483	
Depreciation and Amortization Expense	82,509	72,205	14.3%
Depreciation and Amortization Exp. from Unconsolidated Affiliates	9,357	9,156	2.2%
Other Depreciation and Amortization Exp.	(3,434)	(2,777)	
(Gain) on Discontinued Operations	(50,797)	(35,521)	
Less Other Adjustments	43,183	43,493	
Total Funds From Operations	\$116,084	\$146,735	-20.9%
FFO Per Share	\$0.58	\$0.73	-20.5%
Shares and Operating Units Outstanding (diluted)	199,371	200,045	-0.3%

Source: Company reports

Consolidated Balance Sheet

(in thousands)	Dec. 31, 2015	Dec. 31, 2016	Jun. 30, 2017
Real Estate Assets			
Land	\$876,668	\$831,979	\$818,550
Buildings and Improvements	7,287,862	6,942,452	6,687,134
Less Acc. Depreciation and Amortization	(2,382,568)	(2,427,108)	(2,374,071)
	\$5,781,962	\$5,347,323	\$5,131,613
Real Estate Assets Held for Sale		5,861	
Developments in Progress	75,991	167,355	94,698
Net Investment in Real Estate Assets	5,857,953	5,520,539	5,226,311
Cash and Cash Equivalents	36,892	18,951	29,622
Cash in Escrow			
Receivables - Tenants	87,286	94,676	84,472
Receivables - Other	17,958	6,227	7,699
Mortgage Notes Receivable	18,238	16,803	17,414
Investments in Unconsolidated Affiliates	276,383	266,872	254,522
Intangible Lease Assets and Other Assets	185,281	180,572	188,293
Total Assets	\$6,479,991	\$6,104,640	\$5,808,333
Mortgage and Other Notes Payable	4,710,628	4,465,294	4,249,440
Liabilities Related to Assets Held for Sale			
Accounts Payable and Other Liabilities	344,434	280,498	244,542
Total Liabilities	\$5,055,062	\$4,745,792	\$4,493,982
Commitments and Contingencies			
Redeemable Noncontrolling Interests:			
Redeemable Noncontrolling Partnership Interests	25,330	17,996	13,392
Redeemable Noncontrolling Preferred Joint Venture Interest			
Total Redeemable Noncontrolling Interests	25,330	17,996	13,392
Preferred Shares	25	25	25
Common Stock	1,705	1,708	1,711
Additional Paid-In Capital	1,970,333	1,969,059	1,972,070
Other Comprehensive Income (Loss)	1,935		
Deferred Compensation			
Retained Earnings (Accumulated Deficit)	(689,028)	(742,078)	(779,693)
Total Shareholders' Equity	1,284,970	1,228,714	1,194,113
Noncontrolling Interest	114,629	112,138	106,846
Total Equity	1,399,599	1,340,852	1,300,959
Total Liabilities and Shareholders' Equity	\$6,479,991	\$6,104,640	\$5,808,333

Balance Sheet Ratio Analysis	Dec. 31, 2015	Dec. 31, 2016	Jun. 30, 2017
Net R/E Investments / Total Debt	124.4%	123.6%	123.0%
Debt to Equity	336.6%	333.0%	326.6%
Variable Debt as % of Total Debt	25.3%	19.2%	24.1%
Debt to Total Market Capitalization	63.6%	63.0%	67.4%
Total Debt as % of Total Assets	72.7%	73.1%	73.2%
Shareholders' Equity as % of Total Assets	19.8%	20.1%	20.6%

Previous numbers have not been restated.

Source: Company reports

Valuation

At 3.7x our 2018 FFO estimate, CBL remains undervalued, in our view, and is trading at a significant discount on a Price/FFO basis compared to a peer group of retail mall REITs we track. We believe a 7.6x multiple (a 10% discount to the company's median 10 year historic forward P/FFO multiple and a significant discount to the peer group due to CBL's leverage and lower productivity malls) appropriately reflects CBL's prospects. We derive our \$17.50 target price by applying a 7.6x multiple to our 2019 FFO estimate of \$2.28 per share. We rate CBL Long-term Buy. CBL did a good job completing the portfolio transformation and the re-tenanting of anchor spaces should give the market more confidence in CBL, in our view. We believe the shares are sharply undervalued at the current price.

Regional Mall REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO			2-Year	Price / FFO	
		8/3/2017	Dividend			2016	2017E	2018E	Average Growth	2017E	2018E
Simon Property Group, Inc.	SPG	\$161.95	\$7.20	4.4%	64.2%	\$10.49	\$11.22	\$12.23	16.6%	14.4x	13.2x
Macerich Company	MAC	\$56.92	\$2.84	5.0%	71.9%	\$5.08	\$3.95	\$4.13	-18.7%	14.4x	13.8x
Taubman Centers, Inc.	TCO	\$55.49	\$2.50	4.5%	67.4%	\$2.87	\$3.71	\$3.98	38.7%	15.0x	13.9x
GGP Inc.	GGP	\$21.78	\$0.88	4.0%	55.3%	\$1.57	\$1.59	\$1.66	5.7%	13.7x	13.1x
Pennsylvania Real Estate Investment Trust	PEI	\$11.06	\$0.84	7.6%	50.3%	\$1.90	\$1.67	\$1.79	-5.8%	6.6x	6.2x
Washington Prime Group	WPG	\$8.49	\$1.00	11.8%	53.5%	\$1.80	\$1.87	\$1.66	-7.8%	4.5x	5.1x
Peer Average		\$52.62	\$2.54	4.8%	63.6%	\$3.95	\$4.00	\$4.24	4.8%	13.1x	12.4x
S&P 500	.SPX	2,472.16	\$49.13	2.0%	37.6%	\$117.75	\$130.74	\$139.52	18.5%	18.9x	17.7x
CBL & Associates Properties	CBL	\$8.35	\$1.06	12.7%	46.5%	\$2.69	\$2.28	\$2.23	-17.1%	3.7x	3.7x

Note: Simon Property Group is rated Buy and GGP Inc. is rated Neutral by Hilliard Lyons; the rest are Not Rated.

SPX figures are EPS, not FFO per share.

Source: NAREIT, HL Estimates, and Thomson Eikon.

Suitability

We assign shares of CBL & Associates Properties a suitability rating of 4 on our scale of 1 – 4 (1=most conservative, 4=most aggressive). Our rating is based on CBL's strategy of being the only game in town mall and what we believe is a well-covered dividend, offset somewhat by a more leveraged balance sheet than many of its peers and the negative narrative surrounding bricks and mortar retail. We believe these shares are suited for risk tolerant investors seeking long-term capital appreciation and an attractive dividend yield.

Risks and Considerations

CBL and Associates Properties may not achieve our target price or within the timeframe specified due to external factors beyond the company's control or due to internal factors. We believe these risk factors include:

Interest Rate Risk - Like all REITs, CBL is interest rate sensitive. If short-term interest rates were to rise, the spread between the company's return yield and its cost of capital could shrink.

Consumer Spending & Preferences - The company's tenant base is very dependent upon consumers' spending habits. Should consumer spending decline or the economy enter a prolonged recession, its tenants could get into financial difficulties that would result in a decline in occupancy levels. An increase in consumer preference for online shopping could negatively impact CBL's centers.

Execution Risk - CBL could make an acquisition that would hurt the company's cash flow. We note, however, that historically CBL has done a reasonably good job at staying away from these types of transactions.

Capital Market Risk - CBL is dependent upon access to capital through the financial markets in order to continue growing. In a tough lending environment and/or increasing interest rate environment, CBL's ability to grow could be hampered.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

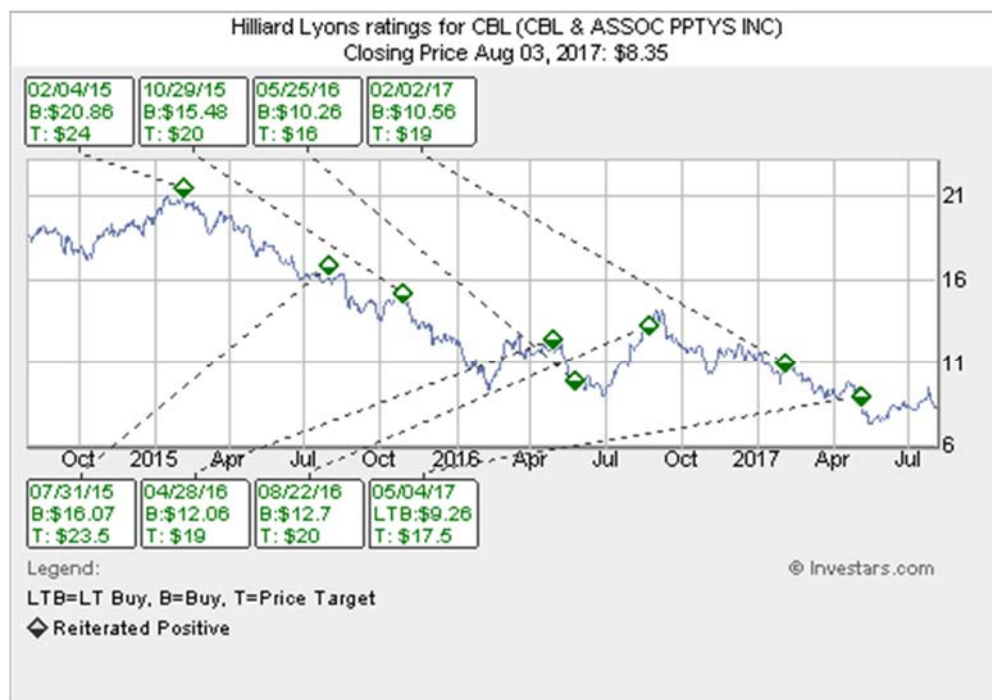
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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