



## REITs

Analyst: Carol L. Kemple  
 502.588.1839 / [CKemple@hilliard.com](mailto:CKemple@hilliard.com)  
 Institutional Sales Desk: George Moorin  
 502.588.9141 / [GMoorin@hilliard.com](mailto:GMoorin@hilliard.com)  
 J.J.B. Hilliard, W.L. Lyons, LLC  
 February 12, 2018

## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

CBL - NYSE (as of 2/9/2018)	\$4.20
Price Target	NA
52-Week Range	\$4.00 - \$10.93
Shares & Units Outstanding (mm)	199
Market Cap. (\$mm)	\$836
3-Mo. Average Daily Volume (000)	4,572
Institutional Ownership	NA
Debt/Total Market Capital (12/17)	73.1%
Dividend	\$0.80
Dividend Yield	19.0%
EBITDA to Fixed Charges	2.4x

### FFO Per Share FY 12/31

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$0.68	\$0.53	\$0.50	\$0.44
2Q	\$0.73	\$0.58	\$0.50	\$0.44
3Q	\$0.56	\$0.52	\$0.46	\$0.41
4Q	\$0.72	\$0.55	\$0.57	\$0.46
Year	\$2.69	\$2.18	\$2.03	\$1.75
P/FFO	1.6x	1.9x		2.4x

### Revenue (\$mm)

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$263	\$238	\$236	\$217
2Q	\$255	\$225	\$230	\$212
3Q	\$252	\$221	\$225	\$210
4Q	\$258	\$235	\$254	\$226
Year	\$1,028	\$927	\$949	\$864

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 119 properties (including 76 regional malls/open-air centers) totaling 74.4 million square feet in 27 states.

## CBL & Associates Properties, Inc.

CBL -- NYSE – Neutral -- 4

### Fourth Quarter Results

- **Fourth quarter FFO was \$0.55 compared to \$0.72 per share in the year ago period. Adjusted FFO per share was \$0.56 versus \$0.68 in the year ago period.** Our FFO per share estimate was \$0.58 versus the consensus of \$0.57.
- **Portfolio occupancy was down year-over-year.** CBL's total occupancy was 93.2% versus 94.8%. CBL's mall portfolio occupancy declined 210 basis points to 92.0%. However, both total occupancy and mall portfolio occupancy increased from 3Q17.
- **Same-store sales for small shop tenants in the company's stabilized malls declined 1.8% for the twelve months ended December 31, 2017.**
- **Guidance was given.** Management initiated 2018 FFO per share guidance of \$1.70 - \$1.80. Guidance includes a full-year budgeted impact of loss in rent related to 2017 tenant bankruptcies, store closures and rent adjustments net of new leasing as well as a reserve of \$10.0 million to \$20.0 million for future unbudgeted loss in rent from tenant bankruptcies, store closures or lease modifications. Total same center NOI at the midpoint is expected to be down 6.0%. Our revised 2018 FFO per share estimate is \$1.75.
- **Our rating on CBL is Neutral.** We do not see a near-term catalyst for the shares. CBL's goal for 2018 is to stabilize the performance of the portfolio and accelerate its reinvention of its properties.

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

## Fourth Quarter Review

Minimum (base) rent declined 7.3% to \$156.0 million versus \$168.3 million in last year's fourth quarter, representing 67.7% of total real estate revenues versus 66.7% (please see income statement on page 4). Tenant reimbursements, the next biggest revenue item, were down 8.2% to \$62.0 million versus \$67.5 million and represented 94.4% of real estate operating expenses versus 98.2% a year ago.

CBL's total occupancy was down 160 basis points from the year ago period to 93.2%. CBL's mall portfolio occupancy declined 210 basis points to 92.0%. However, total occupancy was up 10 basis points and mall occupancy was up 40 basis points from 3Q17, respectively.

### **CBL Occupancy & Same-Store Comparison**

	Occupancy Performance		Same-Store NOI (Y-O-Y Changes)
	12/31/2017	12/31/2016	4Q17
Mall Portfolio	92.0%	94.1%	-7.3%
Associated Centers	97.9%	96.9%	-5.9%
Community Centers	96.8%	98.2%	2.2%
Office and Other			20.0%
<b>Total</b>	<b>93.2%</b>	<b>94.8%</b>	<b>-6.7%</b>

Source: Company report as of December 31, 2017

Total real estate operating expenses declined 4.5%. Total same-store NOI was down 6.7% compared to 4Q16. FFO per share was \$0.55 versus \$0.72 in the year ago quarter. Adjusted FFO per share was \$0.56 versus \$0.68 last year.

## Overview

**Retail/Leasing Environment** - Leasing spreads were down 11.1% in the quarter. Spreads were slightly positive on new leases but down on renewal leases. Rents and leasing spreads were negatively impacted by lower than anticipated rent restructured leases with retailers undergoing bankruptcy-related reorganizations or restructuring. In 2017, only 25% of new leasing was executed with traditional apparel retailers, as the company continues its focus on attracting non-apparel tenants to the mall. Same-store sales per square foot for the trailing twelve months for mall tenants occupying 10,000 square feet or less declined 1.8%. Sales for the holiday season in CBL's portfolio were flat, excluding the impact of one center where an Apple (AAPL - \$156.41) store closed.

Talks regarding anchor redevelopment plans continue. CBL has added a range of uses at its centers including fitness, theaters, entertainment, and eatertainment. The company is also in active discussions to add hotels and multifamily properties to its centers. The planned anchor redevelopments will likely span over multiple years, spreading out the cost.

**New Construction, Expansions, & Redevelopments** - As of December 31, 2017, CBL had six projects in its development pipeline. These include expansions and redevelopments. All projects are expected to be completed by Winter 2018. Initial yields for these projects range from 6.4% to 11.0%. There are two additional projects in the shadow pipeline.

**Financial Update** - As of December 31, 2017, CBL had \$288.6 million and \$509.1 million of debt coming due in 2018 and 2019, respectively, assuming all extension options have been exercised.

**Dividend** - With the 3Q17 earnings release, management announced a quarterly common dividend reduction to \$0.20 per share, down from \$0.2625 per share previously. When asked about the dividend on the 4Q17 earnings call, management commented that the payout ratio at the midpoint of 2018 guidance is

45% and that they are confident that the current dividend is at the right level. We would note the dividend is subject to board approval.

**Guidance & Estimates** - Management initiated 2018 FFO per share guidance of \$1.70 - \$1.80. Guidance includes a full-year budgeted impact of loss in rent related to 2017 tenant bankruptcies, store closures and rent adjustments net of new leasing as well as reserve of \$10.0 million to \$20.0 million for future unbudgeted loss in rent from tenant bankruptcies, store closures or lease modifications. Total same center NOI at the midpoint is expected to be down 6.0%. Our revised 2018 FFO per share estimate is \$1.75.

**Quarterly Income Statement**

(in thousands, except per share amounts)	4Q17	4Q16	% Change
Minimum Rent	\$155,966	\$168,276	-7.3%
Percentage Rent	4,747	7,213	-34.2%
Other Rents	7,837	9,363	-16.3%
Tenant Reimbursements	61,975	67,487	-8.2%
<b>Total Real Estate Revenues</b>	<b>230,525</b>	<b>252,339</b>	<b>-8.6%</b>
Property Operating Costs	31,780	32,956	-3.6%
Real Estate Taxes	21,574	21,756	-0.8%
Maintenance and Repairs	12,284	14,012	-12.3%
<b>Total Real Estate Operating Expenses</b>	<b>65,638</b>	<b>68,724</b>	<b>-4.5%</b>
<b>Real Estate Operating Income (NOI)</b>	<b>164,887</b>	<b>183,615</b>	<b>-10.2%</b>
Management, Development and Leasing Fees	3,235	4,100	-21.1%
Other Revenues	1,596	2,054	-22.3%
General and Administrative Expenses	13,064	16,467	-20.7%
Loss on Impairment of Real Estate Assets		86	
Other Expenses	29	13	123.1%
Depreciation and Amortization Expense	73,629	72,188	2.0%
<b>Income (Loss) From Operations</b>	<b>82,996</b>	<b>101,015</b>	
Interest Expense	53,501	53,608	-0.2%
Interest & Other Income	471	462	1.9%
Impairment of Investment			
Gain on Extinguishment of Debt			
Gain (Loss) on Investments		7,534	
Gain (Loss) on Sales of Real Estate Assets	6,888	15,064	-54.3%
Income Tax (Provision) Benefit	(2,851)	(911)	
Equity in Earnings of Unconsolidated Affiliates	6,535	10,316	-36.7%
<b>Net Before Discontinued, Extraord. Items, Minority Interest</b>	<b>40,538</b>	<b>79,872</b>	<b>-49.2%</b>
Operating Income (Loss) of Discontinued Operations			
Gain on Discontinued Operations			
Extraordinary Items / Charges			
Net Income Attributable to Noncontrolling Interest	(4,074)	(11,042)	
Dividends on Preferred Shares	(11,223)	(11,223)	
<b>Net (Loss) Applicable to Common Shareholders</b>	<b>\$25,241</b>	<b>\$57,607</b>	<b>-56.2%</b>
Net EPS (diluted)	\$0.15	\$0.34	-55.9%
Avg. Shares Outstanding (diluted)	171,098	171,089	0.0%

<b>Funds From Operations</b>	4Q17	4Q16	% Change
Net (Loss) Applicable to Common Shareholders	\$25,241	\$57,607	-56.2%
Noncontrolling Interest in Earnings of Operating Partnership	3,950	9,481	-58.3%
Depreciation and Amortization Expense	73,629	72,188	2.0%
Depreciation and Amortization Exp. from Unconsolidated Affiliates	9,591	9,516	0.8%
Other Depreciation and Amortization Exp.	(3,122)	(2,832)	
(Gain) on Discontinued Operations			
Less Other Adjustments	(222)	(1,498)	
<b>Total Funds From Operations</b>	<b>\$109,067</b>	<b>\$144,462</b>	<b>-24.5%</b>
<b>FFO Per Share</b>	<b>\$0.55</b>	<b>\$0.72</b>	<b>-23.6%</b>
Shares and Operating Units Outstanding (diluted)	199,314	199,381	0.0%

Source: Company reports

**Consolidated Balance Sheet**

(in thousands)	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
<b>Real Estate Assets</b>			
Land	\$876,668	\$831,979	\$813,390
Buildings and Improvements	7,287,862	6,942,452	6,723,194
Less Acc. Depreciation and Amortization	(2,382,568)	(2,427,108)	(2,465,095)
	<b>\$5,781,962</b>	<b>\$5,347,323</b>	<b>\$5,071,489</b>
Real Estate Assets Held for Sale		5,861	
Developments in Progress	75,991	167,355	85,346
<b>Net Investment in Real Estate Assets</b>	<b>5,857,953</b>	<b>5,520,539</b>	<b>5,156,835</b>
Cash and Cash Equivalents	36,892	18,951	32,627
Cash in Escrow			
Receivables - Tenants	87,286	94,676	83,552
Receivables - Other	17,958	6,227	7,570
Mortgage Notes Receivable	18,238	16,803	8,945
Investments in Unconsolidated Affiliates	276,383	266,872	249,192
Intangible Lease Assets and Other Assets	185,281	180,572	166,087
<b>Total Assets</b>	<b>\$6,479,991</b>	<b>\$6,104,640</b>	<b>\$5,704,808</b>
<b>Mortgage and Other Notes Payable</b>	<b>4,710,628</b>	<b>4,465,294</b>	<b>4,230,845</b>
Liabilities Related to Assets Held for Sale			
Accounts Payable and Other Liabilities	344,434	280,498	228,650
<b>Total Liabilities</b>	<b>\$5,055,062</b>	<b>\$4,745,792</b>	<b>\$4,459,495</b>
Commitments and Contingencies			
Redeemable Noncontrolling Interests:			
Redeemable Noncontrolling Partnership Interests	25,330	17,996	8,835
Redeemable Noncontrolling Preferred Joint Venture Interest			
<b>Total Redeemable Noncontrolling Interests</b>	<b>25,330</b>	<b>17,996</b>	<b>8,835</b>
Preferred Shares	25	25	25
Common Stock	1,705	1,708	1,711
Additional Paid-In Capital	1,970,333	1,969,059	1,974,537
Other Comprehensive Income (Loss)	1,935		
Deferred Compensation			
Retained Earnings (Accumulated Deficit)	(689,028)	(742,078)	(836,269)
<b>Total Shareholders' Equity</b>	<b>1,284,970</b>	<b>1,228,714</b>	<b>1,140,004</b>
Noncontrolling Interest	114,629	112,138	96,474
<b>Total Equity</b>	<b>1,399,599</b>	<b>1,340,852</b>	<b>1,236,478</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$6,479,991</b>	<b>\$6,104,640</b>	<b>\$5,704,808</b>

<b>Balance Sheet Ratio Analysis</b>	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Net R/E Investments / Total Debt	124.4%	123.6%	121.9%
Debt to Equity	336.6%	333.0%	342.2%
Variable Debt as % of Total Debt	25.3%	19.2%	24.1%
Debt to Total Market Capitalization	63.6%	63.0%	73.1%
Total Debt as % of Total Assets	72.7%	73.1%	74.2%
Shareholders' Equity as % of Total Assets	19.8%	20.1%	20.0%

Previous numbers have not been restated.

Source: Company reports

## Valuation

At 2.4x our 2018 FFO estimate, CBL is trading at a discount on a Price/FFO basis compared to a peer group of retail mall REITs we track. We believe CBL should trade at a discount to its peer group given its higher leverage and lower productivity malls. At this point we do not see a near-term catalyst for the shares. Operating results in 4Q were weak, and we believe this may continue to persist. Combined with a lack of visibility in the retail environment and future earnings, as well as a lack of a near-term catalyst, we rate the shares Neutral.

Regional Mall REITs	Symbol	Price	Current	Yield	2017	FFO			2-Year	Price / FFO	
		2/9/2018	Dividend		Payout Ratio	2016	2017E/A	2018E	Average Growth	2017E/A	2018E
Simon Property Group, Inc.	SPG	\$157.20	\$7.80	5.0%	69.6%	\$10.49	\$11.21	\$12.00	14.4%	14.0x	13.1x
Macerich Company	MAC	\$60.41	\$2.96	4.9%	77.3%	\$5.08	\$3.83	\$4.03	-20.7%	15.8x	15.0x
Taubman Centers, Inc.	TCO	\$58.24	\$2.50	4.3%	71.2%	\$2.87	\$3.51	\$3.79	32.1%	16.6x	15.4x
GGP Inc.	GGP	\$22.21	\$0.88	4.0%	55.0%	\$1.57	\$1.60	\$1.54	-1.9%	13.9x	14.4x
Pennsylvania Real Estate Investment Trust	PEI	\$9.80	\$0.84	8.6%	51.9%	\$1.90	\$1.62	\$1.69	-11.1%	6.0x	5.8x
Washington Prime Group	WPG	\$5.63	\$1.00	17.8%	53.2%	\$1.80	\$1.88	\$1.56	-13.3%	3.0x	3.6x
<b>Peer Average</b>		<b>\$52.25</b>	<b>\$2.66</b>	<b>5.1%</b>	<b>67.6%</b>	<b>\$3.95</b>	<b>\$3.94</b>	<b>\$4.10</b>	<b>-0.1%</b>	<b>13.3x</b>	<b>12.7x</b>
<b>S&amp;P 500</b>	<b>.SPX</b>	<b>2,619.55</b>	<b>\$50.08</b>	<b>1.9%</b>	<b>38.2%</b>	<b>\$117.75</b>	<b>\$131.00</b>	<b>\$145.29</b>	<b>23.4%</b>	<b>20.0x</b>	<b>18.0x</b>
<b>CBL &amp; Associates Properties</b>	<b>CBL</b>	<b>\$4.20</b>	<b>\$0.80</b>	<b>19.0%</b>	<b>36.7%</b>	<b>\$2.69</b>	<b>\$2.18</b>	<b>\$1.75</b>	<b>-34.9%</b>	<b>1.9x</b>	<b>2.4x</b>

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, offset by a more leveraged balance sheet than many of its peers and the negative narrative surrounding bricks and mortar retail.

## Risks and Considerations

CBL and Associates Properties stock price may be impacted by 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.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2017 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2017 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

*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.

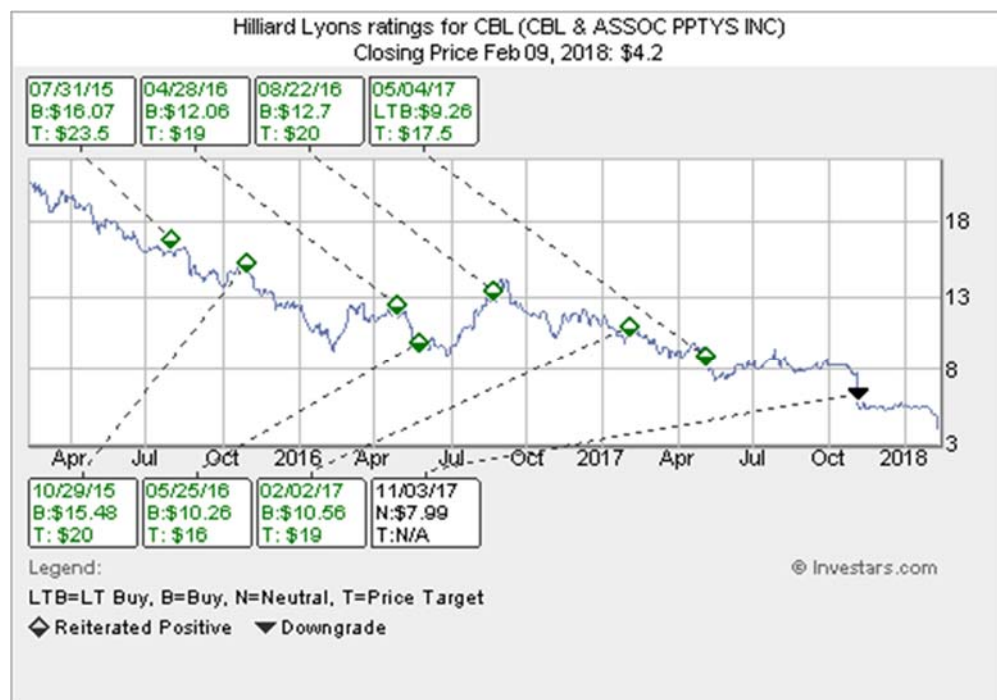
### **Suitability Ratings**

**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	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

### Other Disclosures

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