



## REITs

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## COMPANY UPDATE

### Key Metrics

CBL - NYSE (as of 5/16/2017)	\$7.45
Price Target	\$17.50
52-Week Range	\$7.80 - \$14.30
Shares & Units Outstanding (mm)	199
Market Cap. (\$mm)	\$1,483
3-Mo. Average Daily Volume (000)	5,959.9
Institutional Ownership	94%
Debt/Total Market Capital (3/17)	66.5%
Dividend	\$1.06
Dividend Yield	14.2%
EBITDA to Interest Expense	2.9x

### FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.68		\$0.53	A \$0.51	\$0.51
2Q	\$0.73	\$0.54	\$0.54	\$0.56	\$0.56
3Q	\$0.56	\$0.53	\$0.53	\$0.55	\$0.55
4Q	\$0.72	\$0.59	\$0.59	\$0.62	\$0.62
Year	\$2.69	\$2.20	\$2.20	\$2.24	\$2.24
P/FFO	2.8x		3.4x		3.3x

### Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$263		\$238	A \$239	\$239
2Q	\$255	\$245	\$245	\$249	\$249
3Q	\$252	\$246	\$246	\$254	\$254
4Q	\$258	\$254	\$254	\$263	\$263
Year	\$1,028	\$983	\$983	\$1,010	\$1,010

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 124 properties (including 81 regional malls/open-air centers) totaling 76.9 million square feet in 27 states.

## CBL & Associates Properties, Inc.

CBL -- NYSE – Long-term Buy -- 3

### Frequently Asked Questions

- **Due to recent stock performance of CBL shares, and also retail REITs in general, we have been receiving many questions on CBL.** We will address many of the frequent questions we receive in this piece. As always, feel free to contact us with any additional questions.
- **Will CBL's common dividend be cut?** That is ultimately a Board decision. To maintain REIT status CBL must pay out 90% of taxable income. We, and other investors, do not have access to the information needed to determine what taxable income will be for 2017. Based on our 2017 FFO per share estimate of \$2.20, CBL's payout ratio is below 50%. The board is scheduled to meet this month.
- **Why hasn't the company bought back shares?** Management has mentioned on conference calls over the past year that they believe the company is undervalued, but believes it makes more sense to use funds to invest in their properties and pay down debt.
- **Could someone buy the company?** CBL is a public company so it is for sale every day. We do not know of anyone looking to buy the company.
- **Could CBL go private?** Possibly, but we believe there is value in being a public company and having access to the public markets.
- **Does CBL face other mall competition in its markets?** As of the end of 2016, 87% of CBL's mall NOI was from market dominant or only game in town malls. The average CBL mall is 27 miles to its nearest competitor.
- **See additional questions and answers on page 2.**

**Note Important Disclosures on Pages 4 and 5.**  
**Note Analyst Certification on Page 4.**

- **What is CBL's exposure to Macy's (M - \$22.82), JC Penney (JCP - \$4.60), and Sears (SHLD - \$8.32)?** As of March 31, 2017, JCP accounted for 0.99% of total annualized base revenue. Sears and Macy's each accounted for less than 0.75% of total annualized base revenue. One thing to remember is the closings represent stores that are typically underperforming and probably not driving a lot of traffic to the mall. We believe if CBL gains control of anchor stores at a measured pace, rather than all of them closing at once, it could provide a good opportunity for CBL to improve the quality of the portfolio and improve rental income. Management mentioned on the 1Q17 conference call they are seeing demand from residential, office, hotels and medical offices for these spaces. We believe other uses of such space could drive more traffic to the malls. We would encourage taking a look at CBL's March presentation on its website to see some of its previous anchor redevelopments.
- **What co-tenancy issues could arise from anchor closings?** Co-tenancy clauses vary lease by lease. However, most co-tenancy issues do not go into effect unless multiple anchor stores in the same mall close locations. Management commented on the 1Q17 conference call that it does not expect co-tenancy to have a significant impact on 2017 earnings.
- **What about other store closings?** This year has been a busy one for store closing announcements. However retailers are taking longer than typical to close stores. Due to the later store closing, CBL will not have enough time to get a permanent tenant in many of these spaces by year end. Hence, CBL expects 2017 year end total portfolio occupancy to be 75 -125 basis points lower than 2016 year end occupancy. We note that unless a retailer is in bankruptcy or reaches a deal with CBL they must continue to pay rent for the remainder of their lease even if they close a store.
- **How is CBL dealing with this changing retail environment?** Management at CBL understands the retail environment is changing. The company is looking to sign more leases with restaurants, discount retailers, and experience tenants. In some cases the company may repurpose part of their malls for office space, multi-family or hotels. We have heard from many of our covered names that many retailers are "property type agnostic" and just want space in the best centers in town and are unconcerned with the retail type. We believe in many communities CBL offers the best retail space in town. We believe the malls of the future will have less space devoted to apparel than in the past.
- **Do we think the preferred shares (CBL.D - \$22.73) and (CBL.E-\$22.70) will be called?** The D shares can be called at any time but the E shares cannot be called until later this year. We do not think CBL will call these shares in the near term as we believe they would rather use funds for redevelopments and to pay down debt.
- **How are CBL's financials?** As of March 31, 2017, CBL had \$173.7 million and \$695.8 million of debt coming due in 2017 and 2018, respectively, assuming all extension options have been exercised. We believe these maturities are manageable.

## Valuation

At 3.3x 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 7.7x multiple (equal 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 7.7x multiple to our 2019 FFO estimate of \$2.30 per share. We rate CBL Long-term Buy. We believe in the current environment with the overly negative narrative on retail real estate that it may take longer for the market to see the value in CBL that we see, hence our Long-term Buy rating. CBL did a good job completing the portfolio transformation in our view, and we expect the re-tenanting of anchor spaces could give the market more confidence in CBL. 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	
		5/16/2017	Dividend			2016	2017E	2018E	Average Growth	2017E	2018E
Simon Property Group, Inc.	SPG	\$154.13	\$7.00	4.5%	60.7%	\$10.49	\$11.53	\$12.17	16.0%	13.4x	12.7x
Macerich Company	MAC	\$57.44	\$2.84	4.9%	71.9%	\$5.08	\$3.95	\$4.16	-18.1%	14.5x	13.8x
Taubman Centers, Inc.	TCO	\$58.50	\$2.50	4.3%	66.7%	\$2.87	\$3.75	\$4.09	42.5%	15.6x	14.3x
GGP Inc.	GGP	\$22.01	\$0.88	4.0%	57.5%	\$1.57	\$1.53	\$1.65	5.1%	14.4x	13.3x
Pennsylvania Real Estate Investment Trust	PEI	\$10.45	\$0.84	8.0%	50.0%	\$1.90	\$1.68	\$1.84	-3.2%	6.2x	5.7x
Washington Prime Group	WPG	\$7.56	\$1.00	13.2%	59.9%	\$1.80	\$1.67	\$1.67	-7.2%	4.5x	4.5x
<b>Peer Average</b>		<b>\$51.68</b>	<b>\$2.51</b>	<b>4.9%</b>	<b>62.5%</b>	<b>\$3.95</b>	<b>\$4.02</b>	<b>\$4.26</b>	<b>5.9%</b>	<b>12.9x</b>	<b>12.1x</b>
<b>S&amp;P 500</b>	<b>SPX</b>	<b>2,400.67</b>	<b>\$48.08</b>	<b>2.0%</b>	<b>36.8%</b>	<b>\$117.75</b>	<b>\$130.61</b>	<b>\$140.05</b>	<b>18.9%</b>	<b>18.4x</b>	<b>17.1x</b>
<b>CBL &amp; Associates Properties</b>	<b>CBL</b>	<b>\$7.45</b>	<b>\$1.06</b>	<b>14.2%</b>	<b>48.2%</b>	<b>\$2.69</b>	<b>\$2.20</b>	<b>\$2.24</b>	<b>-16.7%</b>	<b>3.4x</b>	<b>3.3x</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, Baseline, SNL and Hilliard Lyons' estimates.

## Suitability

We assign shares of CBL & Associates Properties a suitability rating of 3 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. We believe these shares are suited for investors seeking long-term capital appreciation and an attractive dividend yield, yet who accept the potential volatility in the share price as retail sales and closings gain a large share of headline news.

## 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** - 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.

**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.

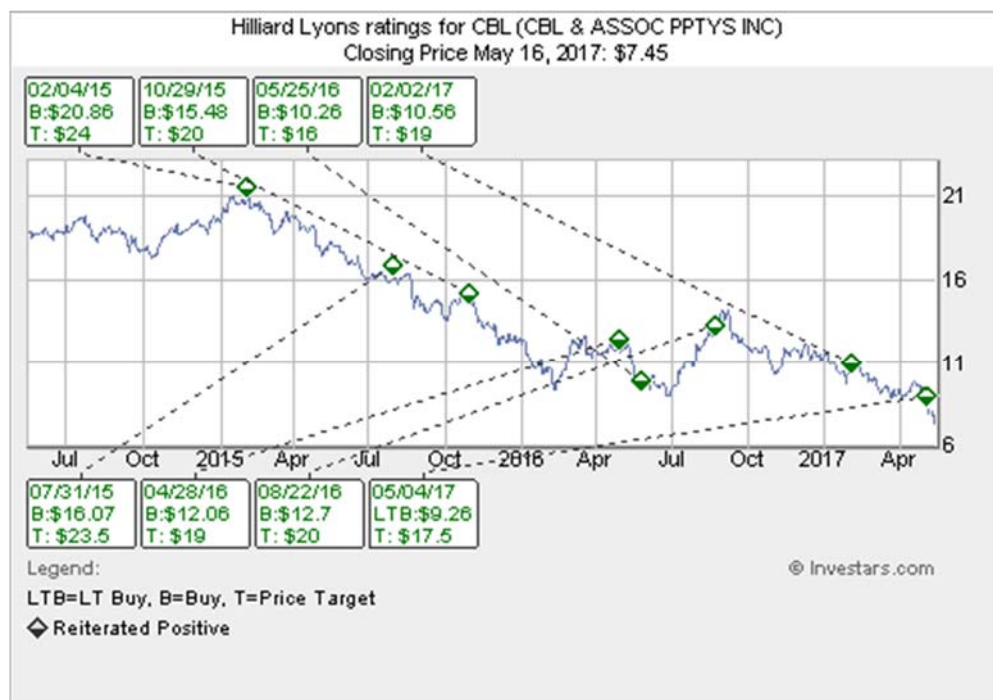
### **Suitability Ratings**

**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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

**Other Disclosures**

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