



REITs

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May 4, 2017

COMPANY UPDATE / RATING CHANGE/ PRICE TARGET CHANGE / ESTIMATE CHANGE

Key Metrics

CBL - NYSE (as of 5/3/2017)	\$8.44
Price Target	\$17.50
52-Week Range	\$8.72 - \$14.30
Shares & Units Outstanding (mm)	199
Market Cap. (\$mm)	\$1,680
3-Mo. Average Daily Volume (000)	4,883.0
Institutional Ownership	99%
Debt/Total Market Capital (3/17)	66.5%
Dividend	\$1.06
Dividend Yield	12.6%
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
2Q	\$0.73	\$0.56	\$0.54		\$0.56
3Q	\$0.56	\$0.56	\$0.53		\$0.55
4Q	\$0.72	\$0.61	\$0.59		\$0.62
Year	\$2.69	\$2.30	\$2.20		\$2.24
P/FFO	3.1x		3.8x		3.8x

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$263		\$238	A	\$239
2Q	\$255	\$254	\$245		\$249
3Q	\$252	\$258	\$246		\$254
4Q	\$258	\$264	\$254		\$263
Year	\$1,028	\$1,035	\$983		\$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 125 properties (including 82 regional malls/open-air centers) totaling 77.4 million square feet in 27 states.

CBL & Associates Properties, Inc.

CBL -- NYSE – Long-term Buy -- 3

First Quarter Results

- **First quarter FFO was \$0.53 compared to \$0.68 per share in the year ago period. Adjusted FFO per share was \$0.52 versus \$0.56 in the year ago period.** Our FFO per share estimate was \$0.56 versus the consensus of \$0.53.
- **Portfolio occupancy was up year-over-year.** CBL's total occupancy was 92.1% versus 91.6%. CBL's mall portfolio occupancy declined 40 basis points to 90.9%.
- **Same-store sales for small shop tenants in the company's stabilized malls declined 2.6% for the twelve months ended March 31, 2017.**
- **Guidance adjusted.** Management lowered 2017 FFO per share guidance from its initial range of \$2.26 - \$2.33 to a range of \$2.20 - \$2.26 due to \$0.04 per share of dilution from announced disposition activity and its current outlook. Guidance assumes \$10.0 million - \$12.0 million of outparcel sales, 75 to 125 basis points lower total portfolio occupancy at year end relative to year end 2016, 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 lowered to \$2.20.
- **We are changing our rating from Buy to 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. Our two year price target is \$17.50. We continue to believe CBL is sharply undervalued and the change in our rating is solely due to the lengthening of the time frame on our target price.

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

First Quarter Review

Minimum (base) rent declined 6.4% to \$159.8 million versus \$170.6 million in last year's first quarter, representing 68.5% of total real estate revenues versus 67.3% (please see income statement on page 4). Tenant reimbursements, the next biggest revenue item, were down 8.3% to \$67.3 million versus \$73.4 million and represented 95.7% of real estate operating expenses versus 96.3% a year ago.

CBL's total occupancy was up 50 basis points from the year ago period to 92.1%. CBL's mall portfolio occupancy declined 40 basis points to 90.5%.

CBL Occupancy & Same-Store Comparison

	Occupancy Performance		Same-Store NOI (Y-O-Y Changes)
	3/31/2017	3/31/2016	1Q17
Mall Portfolio	90.5%	90.9%	-1.6%
Associated Centers	97.7%	91.5%	4.2%
Community Centers	98.2%	96.0%	6.3%
Office and Other			8.3%
Total	92.1%	91.6%	-1.0%

Source: Company reports as of March 31, 2017

Total real estate operating expenses declined 7.7%. Total same-store NOI was down 1.0% year over year. FFO per share was \$0.53 versus \$0.68 in the year ago quarter.

Overview

Retail/Leasing Environment - Leasing spreads continued to improve in the quarter, up 2.0% overall. 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 2.6%. The first quarter was negatively impacted by store closings. (Store closings typical happen early in the year as most struggling tenants try to stay open during the holiday shopping season.) Management's updated guidance includes a cushion of \$3 - \$5 million of estimated income loss from store closings and bankruptcies beyond what CBL has already been told about.

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 - CBL sold two office buildings during the quarter for gross proceeds of \$6.25 million. On May 1, CBL announced the sale of The Outlet Shoppes at Oklahoma City for a gross sale price of \$130.0 million. We view this as a very attractive price. CBL had a 75% ownership interest in this property. CBL's share of net equity proceeds, after the retirement of secured loans and closing costs, was \$38.0 million, which was used to pay down the credit line. The company has entered into a binding contract for the sale of two malls for a total gross sales price of \$53.5 million. These two mall dispositions are expected to close in May.

At this time management has completed its previously announced portfolio transformation. Management had sold or given back (or is in the process of selling or giving back) 20 of the 25 original properties in this plan. Management believes they can add value to the remaining five original properties through

redevelopment. The company will continue to look to sell additional properties as part of its capital recycling plan or as opportunities arise.

Grand Opening - On April 6, CBL and its joint venture partner Horizon Group Properties (HGPI-5 \$3.95) celebrated the official grand opening of The Outlet Shoppes at Laredo in Laredo, Texas. CBL has a 65% ownership interest in this 358,000 square foot center. Tenants at the center include Michael Kors (KORS - \$37.15), Vera Bradley (VRA - \$9.07), Carter's (CRI - \$91.54), Express (EXPR - \$8.88) and Under Armour (UA - \$18.69).

New Construction, Expansions, & Redevelopments - As of March 31, CBL had 12 projects in its development pipeline and its shadow pipeline. These include developments, expansions, and redevelopments. All projects are expected to be completed this year. Initial yields for these projects range from 6.6% to 19.7%.

Financial Update - 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.

Guidance & Estimates - Management lowered 2017 FFO per share guidance from its initial range of \$2.26 - \$2.33 to a range of \$2.20 - \$2.26 due to \$0.04 per share of dilution from announced disposition activity and its current outlook. Guidance assumes \$10.0 million - \$12.0 million of outparcel sales, 75 to 125 basis points lower total portfolio occupancy at year end relative to year end 2016, 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 \$2.20.

Quarterly Income Statement

(in thousands, except per share amounts)	1Q17	1Q16	% Change
Minimum Rent	\$159,750	\$170,629	-6.4%
Percentage Rent	2,389	4,673	-48.9%
Other Rents	3,652	5,062	-27.9%
Tenant Reimbursements	67,291	73,366	-8.3%
Total Real Estate Revenues	233,082	253,730	-8.1%
Property Operating Costs	34,914	38,628	-9.6%
Real Estate Taxes	22,083	23,028	-4.1%
Maintenance and Repairs	13,352	14,548	-8.2%
Total Real Estate Operating Expenses	70,349	76,204	-7.7%
Real Estate Operating Income (NOI)	162,733	177,526	-8.3%
Management, Development and Leasing Fees	3,452	2,581	33.7%
Other Revenues	1,479	6,767	-78.1%
General and Administrative Expenses	16,082	17,168	-6.3%
Loss on Impairment of Real Estate Assets	3,263	19,685	-83.4%
Other Expenses		9,685	
Depreciation and Amortization Expense	71,220	76,506	-6.9%
Income (Loss) From Operations	77,099	63,830	
Interest Expense	56,201	55,231	1.8%
Interest & Other Income	1,404	360	
Impairment of Investment			
Gain on Extinguishment of Debt	4,055	6	
Gain (Loss) on Investments			
Gain (Loss) on Sales of Real Estate Assets	5,988		
Income Tax (Provision) Benefit	800	537	
Equity in Earnings of Unconsolidated Affiliates	5,373	32,390	
Net Before Discontinued, Extraord. Items, Minority Interest	38,518	41,892	-8.1%
Operating Income (Loss) of Discontinued Operations			
Gain on Discontinued Operations			
Extraordinary Items / Charges			
Net Income Attributable to Noncontrolling Interest	(4,403)	(1,818)	
Dividends on Preferred Shares	(11,223)	(11,223)	
Net (Loss) Applicable to Common Shareholders	\$22,892	\$28,851	
Net EPS (diluted)	\$0.13	\$0.17	
Avg. Shares Outstanding (diluted)	170,989	170,669	0.2%

Funds From Operations	1Q17	1Q16	% Change
Net (Loss) Applicable to Common Shareholders	\$22,892	\$28,851	
Noncontrolling Interest in Earnings of Operating Partnership	3,690	4,945	
Depreciation and Amortization Expense	71,220	76,506	-6.9%
Depreciation and Amortization Exp. from Unconsolidated Affiliates	9,543	9,178	4.0%
Other Depreciation and Amortization Exp.	(2,843)	(3,230)	
(Gain) on Discontinued Operations			
Less Other Adjustments	2,108	19,685	
Total Funds From Operations	\$106,610	\$135,935	-21.6%
FFO Per Share	\$0.53	\$0.68	-22.1%
Shares and Operating Units Outstanding (diluted)	199,281	199,926	-0.3%

Source: Company reports

Consolidated Balance Sheet

(in thousands)	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017
Real Estate Assets			
Land	\$876,668	\$831,979	\$852,707
Buildings and Improvements	7,287,862	6,942,452	6,964,854
Less Acc. Depreciation and Amortization	(2,382,568)	(2,427,108)	(2,477,356)
	\$5,781,962	\$5,347,323	\$5,340,205
Real Estate Assets Held for Sale		5,861	
Developments in Progress	75,991	167,355	185,228
Net Investment in Real Estate Assets	5,857,953	5,520,539	5,525,433
Cash and Cash Equivalents	36,892	18,951	27,553
Cash in Escrow			
Receivables - Tenants	87,286	94,676	90,485
Receivables - Other	17,958	6,227	11,519
Mortgage Notes Receivable	18,238	16,803	16,347
Investments in Unconsolidated Affiliates	276,383	266,872	262,216
Intangible Lease Assets and Other Assets	185,281	180,572	196,419
Total Assets	\$6,479,991	\$6,104,640	\$6,129,972
Mortgage and Other Notes Payable	4,710,628	4,465,294	4,522,480
Liabilities Related to Assets Held for Sale			
Accounts Payable and Other Liabilities	344,434	280,498	277,568
Total Liabilities	\$5,055,062	\$4,745,792	\$4,800,048
Commitments and Contingencies			
Redeemable Noncontrolling Interests:			
Redeemable Noncontrolling Partnership Interests	25,330	17,996	15,472
Redeemable Noncontrolling Preferred Joint Venture Interest			
Total Redeemable Noncontrolling Interests	25,330	17,996	15,472
Preferred Shares	25	25	25
Common Stock	1,705	1,708	1,711
Additional Paid-In Capital	1,970,333	1,969,059	1,971,155
Other Comprehensive Income (Loss)	1,935		
Deferred Compensation			
Retained Earnings (Accumulated Deficit)	(689,028)	(742,078)	(764,524)
Total Shareholders' Equity	1,284,970	1,228,714	1,208,367
Noncontrolling Interest	114,629	112,138	106,085
Total Equity	1,399,599	1,340,852	1,314,452
Total Liabilities and Shareholders' Equity	\$6,479,991	\$6,104,640	\$6,129,972

Balance Sheet Ratio Analysis	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017
Net R/E Investments / Total Debt	124.4%	123.6%	122.2%
Debt to Equity	336.6%	333.0%	344.1%
Variable Debt as % of Total Debt	25.3%	19.2%	24.2%
Debt to Total Market Capitalization	63.6%	63.0%	66.5%
Total Debt as % of Total Assets	72.7%	73.1%	73.8%
Shareholders' Equity as % of Total Assets	19.8%	20.1%	19.7%

Previous numbers have not been restated.

Source: Company reports

Valuation

At 4.1x 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 have changed our rating on CBL to Long-term Buy from Buy. This change is only because 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. CBL did a good job completing the portfolio transformation and expect the re-tenanting of anchor spaces will 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	
		5/3/2017	Dividend			2016	2017E	2018E	Average Growth	2017E	2018E
Simon Property Group, Inc.	SPG	\$165.59	\$7.00	4.2%	60.7%	\$10.49	\$11.53	\$12.17	16.0%	14.4x	13.6x
Macerich Company	MAC	\$62.09	\$2.84	4.6%	71.7%	\$5.08	\$3.96	\$4.15	-18.3%	15.7x	15.0x
Taubman Centers, Inc.	TCO	\$62.06	\$2.50	4.0%	66.5%	\$2.87	\$3.76	\$4.09	42.5%	16.5x	15.2x
Washington Prime Group	WPG	\$8.71	\$1.00	11.5%	55.6%	\$1.80	\$1.80	\$1.69	-6.1%	4.8x	5.2x
Peer Average		\$74.61	\$3.34	4.5%	63.4%	\$5.06	\$5.26	\$5.53	8.5%	14.2x	13.5x
S&P 500	SPX	2,388.13	\$48.08	2.0%	36.8%	\$117.75	\$130.61	\$140.05	18.9%	18.3x	17.1x
CBL & Associates Properties	CBL	\$9.26	\$1.06	11.4%	48.2%	\$2.69	\$2.20	\$2.24	-16.7%	4.2x	4.1x

Note: Simon Property Group is rated Buy 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.

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.

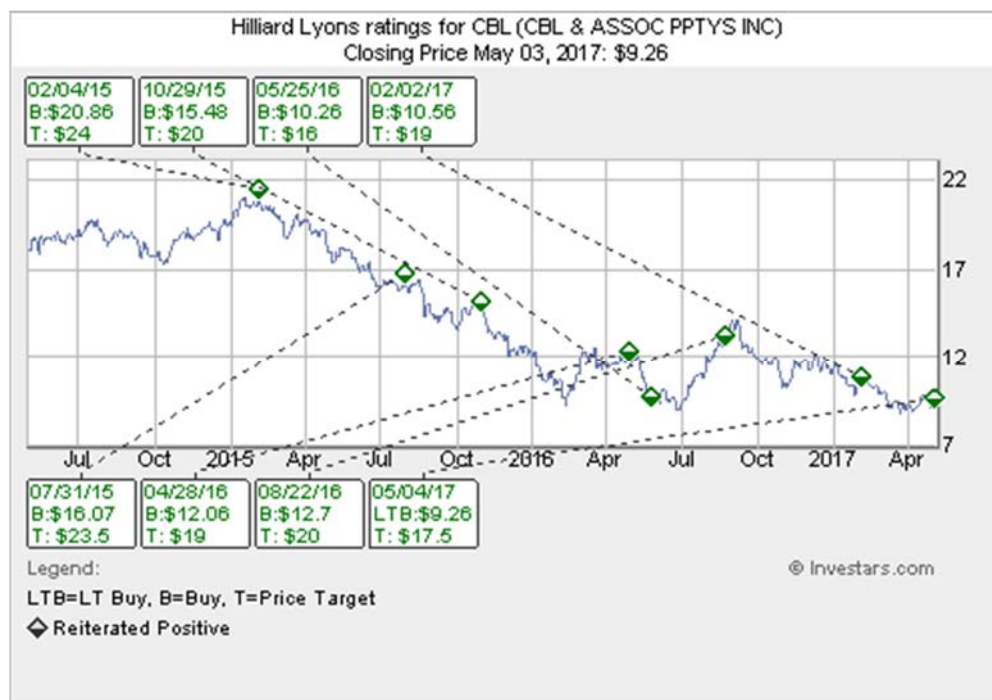
Suitability Ratings

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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