



## REITs

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J.J.B. Hilliard, W.L. Lyons, LLC  
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## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

CBL - NYSE (as of 11/2/2017)	\$7.99
Price Target	NA
52-Week Range	\$7.15 - \$12.35
Shares & Units Outstanding (mm)	199
Market Cap. (\$mm)	\$1,590
3-Mo. Average Daily Volume (000)	3,212
Institutional Ownership	105%
Debt/Total Market Capital (9/17)	67.4%
Dividend	\$0.80
Dividend Yield	10.0%
EBITDA to to Fixed Charges	2.5x

### FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.68		\$0.53 A	\$0.51	\$0.50
2Q	\$0.73		\$0.58 A	\$0.52	\$0.50
3Q	\$0.56		\$0.52 A	\$0.48	\$0.46
4Q	\$0.72	\$0.60	\$0.58	\$0.61	\$0.57
Year	\$2.69	\$2.28	\$2.21	\$2.10	\$2.03
P/FFO	3.0x		3.6x		3.9x

### Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$263		\$238 A	\$239	\$236
2Q	\$255		\$225 A	\$233	\$230
3Q	\$252		\$221 A	\$251	\$225
4Q	\$258	\$252	\$251	\$258	\$254
Year	\$1,028	\$964	\$943	\$985	\$949

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

### Rough Quarter. Dividend Cut.

- **Third quarter FFO was \$0.52 compared to \$0.56 per share in the year ago period. Adjusted FFO per share was \$0.50 versus \$0.57 in the year ago period.** Our FFO per share estimate was \$0.56 versus the consensus of \$0.54.
- **Portfolio occupancy was down year-over-year.** CBL's total occupancy was 93.1% versus 93.5%. CBL's mall portfolio occupancy declined 100 basis points to 91.6%. However, both total occupancy and mall portfolio occupancy increased from 2Q17.
- **Same-store sales for small shop tenants in the company's stabilized malls declined 1.8% for the twelve months ended September 30, 2017.**
- **The quarterly dividend was cut to \$0.20 per share from \$0.265 per share previously.**
- **Guidance changed.** Management decreased 2017 FFO per share guidance from its previous range of \$2.29 - \$2.35 to a range of \$2.21 - \$2.25. 2017 adjusted FFO per share guidance was reduced to \$2.08 - \$2.12 from its previous range of \$2.18 - \$2.24. Guidance assumes \$12.0 million - \$14.0 million of outparcel sales, 75 to 125 basis points lower total portfolio occupancy at year end, G&A of \$61 million to \$62 million, and same-center NOI growth of -3.0% to -2.0%. Guidance does not account for any future unannounced acquisitions or dispositions or capital market activity. Our revised 2017 FFO per share estimate is \$2.21.
- **Our rating on CBL is Neutral.** We do not see a near-term catalyst for the shares.

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

### Third Quarter Review

Minimum (base) rent declined 8.3% to \$150.8 million versus \$164.4 million in last year's third quarter, representing 68.4% of total real estate revenues versus 68.2% (please see income statement on page 4). Tenant reimbursements, the next biggest revenue item, were down 9.3% to \$63.1 million versus \$69.5 million and represented 98.3% of real estate operating expenses versus 98.1% a year ago.

CBL's total occupancy was down 40 basis points from the year ago period to 93.1%. CBL's mall portfolio occupancy declined 100 basis points to 91.6%. However, total occupancy was up 150 basis points and mall occupancy was up 140 basis points from 2Q17, respectively.

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

	Occupancy Performance		Same-Store NOI (Y-O-Y Changes)
	9/30/2017	9/30/2016	3Q17
Mall Portfolio	91.6%	92.6%	-2.8%
Associated Centers	98.2%	96.1%	-2.9%
Community Centers	98.2%	97.5%	1.0%
Office and Other			7.6%
<b>Total</b>	<b>93.1%</b>	<b>93.5%</b>	<b>-2.6%</b>

Source: Company reports as of September 30, 2017

Total real estate operating expenses declined 9.3%. Total same-store NOI was down 2.6% year over year. FFO per share was \$0.52 versus \$0.56 in the year ago quarter. Adjusted FFO per share was \$0.50 versus \$0.57 last year.

### Overview

**Retail/Leasing Environment** - Leasing spreads were down 13.6% 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 and rent roll downs on renewals with tenants that had high occupancy cost. So far in 2017, only 25% of new leasing has been 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%. The third quarter sales were flat compared to third quarter of 2016.

Talks regarding anchor redevelopment plans continue. 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** - The company sold its remaining 25% interest in River Ridge Mall in Lynchburg, Virginia for \$9.0 million.

**New Construction, Expansions, & Redevelopments** - As of September 30, CBL had four projects in its development pipeline. These include expansions and redevelopments. All projects are expected to be completed by Fall 2018. Initial yields for these projects range from 6.5% to 9.2%.

**Financial Update** - As of September 30, CBL had \$123.3 million and \$289.2 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 (until July 2020). 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 2<sup>nd</sup> 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.

**Notes Offering** - During the quarter, CBL closed an offering of \$225 million of 5.950% senior unsecured notes due 2026. Net proceeds were \$218.9 million.

**Dividend** - In the earnings release CBL announced a quarterly common dividend reduction to \$0.20 per share, down from \$0.2625 per share previously. We believe many investors were surprised by this news, as many questions on the earnings call were focused on this. Management said they did not take this decision lightly. Free cash flow is CBL's cheapest way to fund its capital needs. This dividend cut will save CBL \$50 million on an annual basis. This savings will likely be used to fund redevelopments and/or pay down debt. The company does not want to take on debt to fund redevelopments if possible. This cut was based on projected 2018 taxable income. Regarding the dividend, management believes looking forward it is in a good position.

**Guidance & Estimates** - Management decreased 2017 FFO per share guidance from its previous range of \$2.29 - \$2.35 to a range of \$2.21 - \$2.25. 2017 adjusted FFO per share guidance was reduced to \$2.08 - \$2.12 from its previous range of \$2.18 - \$2.24. Guidance assumes \$12.0 million - \$14.0 million of outparcel sales, 75 to 125 basis points lower total portfolio occupancy at year end, G&A of \$61 million to \$62 million, and same-center NOI growth of -3.0% to -2.0%. Guidance does not account for any future unannounced acquisitions or dispositions or capital market activity. Our revised 2017 FFO per share estimate is \$2.21.

**Quarterly Income Statement**

(in thousands, except per share amounts)	3Q17	3Q16	% Change
Minimum Rent	\$150,836	\$164,444	-8.3%
Percentage Rent	3,000	3,225	-7.0%
Other Rents	3,790	3,866	-2.0%
Tenant Reimbursements	63,055	69,489	-9.3%
<b>Total Real Estate Revenues</b>	<b>220,681</b>	<b>241,024</b>	<b>-8.4%</b>
Property Operating Costs	31,295	35,116	-10.9%
Real Estate Taxes	21,573	22,492	-4.1%
Maintenance and Repairs	11,254	13,236	-15.0%
<b>Total Real Estate Operating Expenses</b>	<b>64,122</b>	<b>70,844</b>	<b>-9.5%</b>
<b>Real Estate Operating Income (NOI)</b>	<b>156,559</b>	<b>170,180</b>	<b>-8.0%</b>
Management, Development and Leasing Fees	2,718	4,177	-34.9%
Other Revenues	1,251	6,520	-80.8%
General and Administrative Expenses	13,568	13,222	2.6%
Loss on Impairment of Real Estate Assets	24,935	53,558	-53.4%
Other Expenses	132	5,576	-97.6%
Depreciation and Amortization Expense	71,732	71,794	-0.1%
<b>Income (Loss) From Operations</b>	<b>50,161</b>	<b>36,727</b>	
Interest Expense	53,913	54,292	-0.7%
Interest & Other Income	(200)	451	
Impairment of Investment			
Gain on Extinguishment of Debt	6,452	(6)	
Gain (Loss) on Investments	(354)		
Gain (Loss) on Sales of Real Estate Assets	1,383	4,926	
Income Tax (Provision) Benefit	1,064	2,386	
Equity in Earnings of Unconsolidated Affiliates	4,706	10,478	
<b>Net Before Discontinued, Extraord. Items, Minority Interest</b>	<b>9,299</b>	<b>670</b>	
Operating Income (Loss) of Discontinued Operations			
Gain on Discontinued Operations			
Extraordinary Items / Charges			
Net Income Attributable to Noncontrolling Interest	(334)	389	
Dividends on Preferred Shares	(11,223)	(11,223)	
<b>Net (Loss) Applicable to Common Shareholders</b>	<b>(\$2,258)</b>	<b>(\$10,164)</b>	
Net EPS (diluted)	(\$0.01)	(\$0.06)	
Avg. Shares Outstanding (diluted)	171,096	170,792	0.2%

<b>Funds From Operations</b>	3Q17	3Q16	% Change
Net (Loss) Applicable to Common Shareholders	(\$2,258)	(\$10,164)	
Noncontrolling Interest in Earnings of Operating Partnership	(81)	(1,372)	
Depreciation and Amortization Expense	71,732	71,794	-0.1%
Depreciation and Amortization Exp. from Unconsolidated Affiliates	9,633	10,756	-10.4%
Other Depreciation and Amortization Exp.	(3,104)	(3,075)	
(Gain) on Discontinued Operations			
Less Other Adjustments	26,930	43,127	
<b>Total Funds From Operations</b>	<b>\$102,852</b>	<b>\$111,066</b>	<b>-7.4%</b>
<b>FFO Per Share</b>	<b>\$0.52</b>	<b>\$0.56</b>	<b>-7.1%</b>
Shares and Operating Units Outstanding (diluted)	199,321	200,004	-0.3%

Source: Company reports

**Consolidated Balance Sheet**

(in thousands)	Dec. 31, 2015	Dec. 31, 2016	Sept. 30, 2017
<b>Real Estate Assets</b>			
Land	\$876,668	\$831,979	\$811,742
Buildings and Improvements	7,287,862	6,942,452	6,668,312
Less Acc. Depreciation and Amortization	(2,382,568)	(2,427,108)	(2,411,560)
	<b>\$5,781,962</b>	<b>\$5,347,323</b>	<b>\$5,068,494</b>
Real Estate Assets Held for Sale		5,861	
Developments in Progress	75,991	167,355	100,106
<b>Net Investment in Real Estate Assets</b>	<b>5,857,953</b>	<b>5,520,539</b>	<b>5,168,600</b>
Cash and Cash Equivalents	36,892	18,951	31,351
Cash in Escrow			
Receivables - Tenants	87,286	94,676	86,947
Receivables - Other	17,958	6,227	5,554
Mortgage Notes Receivable	18,238	16,803	19,279
Investments in Unconsolidated Affiliates	276,383	266,872	251,664
Intangible Lease Assets and Other Assets	185,281	180,572	180,361
<b>Total Assets</b>	<b>\$6,479,991</b>	<b>\$6,104,640</b>	<b>\$5,743,756</b>
<b>Mortgage and Other Notes Payable</b>	<b>4,710,628</b>	<b>4,465,294</b>	<b>4,216,178</b>
Liabilities Related to Assets Held for Sale			
Accounts Payable and Other Liabilities	344,434	280,498	270,046
<b>Total Liabilities</b>	<b>\$5,055,062</b>	<b>\$4,745,792</b>	<b>\$4,486,224</b>
Commitments and Contingencies			
Redeemable Noncontrolling Interests:			
Redeemable Noncontrolling Partnership Interests	25,330	17,996	13,076
Redeemable Noncontrolling Preferred Joint Venture Interest			
<b>Total Redeemable Noncontrolling Interests</b>	<b>25,330</b>	<b>17,996</b>	<b>13,076</b>
Preferred Shares	25	25	25
Common Stock	1,705	1,708	1,711
Additional Paid-In Capital	1,970,333	1,969,059	1,971,447
Other Comprehensive Income (Loss)	1,935		
Deferred Compensation			
Retained Earnings (Accumulated Deficit)	(689,028)	(742,078)	(827,292)
<b>Total Shareholders' Equity</b>	<b>1,284,970</b>	<b>1,228,714</b>	<b>1,145,891</b>
Noncontrolling Interest	114,629	112,138	98,565
<b>Total Equity</b>	<b>1,399,599</b>	<b>1,340,852</b>	<b>1,244,456</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$6,479,991</b>	<b>\$6,104,640</b>	<b>\$5,743,756</b>

<b>Balance Sheet Ratio Analysis</b>	Dec. 31, 2015	Dec. 31, 2016	Sept. 30, 2017
Net R/E Investments / Total Debt	124.4%	123.6%	122.6%
Debt to Equity	336.6%	333.0%	338.8%
Variable Debt as % of Total Debt	25.3%	19.2%	23.6%
Debt to Total Market Capitalization	63.6%	63.0%	67.4%
Total Debt as % of Total Assets	72.7%	73.1%	73.4%
Shareholders' Equity as % of Total Assets	19.8%	20.1%	20.0%

Previous numbers have not been restated.

Source: Company reports

## Valuation

At 3.9x 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 3Q were below our expectations 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	Payout Ratio	FFO			2-Year	Price / FFO	
		11/2/2017	Dividend			2016	2017E	2018E	Average Growth	2017E	2018E
Simon Property Group, Inc.	SPG	\$159.36	\$7.40	4.6%	66.1%	\$10.49	\$11.20	\$12.22	16.5%	14.2x	13.0x
Macerich Company	MAC	\$55.65	\$2.96	5.3%	74.9%	\$5.08	\$3.95	\$4.11	-19.1%	14.1x	13.5x
Taubman Centers, Inc.	TCO	\$47.51	\$2.50	5.3%	67.6%	\$2.87	\$3.70	\$3.89	35.5%	12.8x	12.2x
GGP Inc.	GGP	\$19.67	\$0.88	4.5%	55.7%	\$1.57	\$1.58	\$1.61	2.5%	12.4x	12.2x
Pennsylvania Real Estate Investment Trust	PEI	\$10.61	\$0.84	7.9%	51.2%	\$1.90	\$1.64	\$1.72	-9.5%	6.5x	6.2x
Washington Prime Group	WPG	\$7.88	\$1.00	12.7%	55.2%	\$1.80	\$1.81	\$1.57	-12.8%	4.4x	5.0x
<b>Peer Average</b>		<b>\$50.11</b>	<b>\$2.60</b>	<b>5.2%</b>	<b>65.2%</b>	<b>\$3.95</b>	<b>\$3.98</b>	<b>\$4.19</b>	<b>2.2%</b>	<b>12.6x</b>	<b>12.0x</b>
<b>S&amp;P 500</b>	<b>.SPX</b>	<b>2,579.85</b>	<b>\$49.60</b>	<b>1.9%</b>	<b>37.9%</b>	<b>\$117.75</b>	<b>\$131.03</b>	<b>\$141.07</b>	<b>19.8%</b>	<b>19.7x</b>	<b>18.3x</b>
<b>CBL &amp; Associates Properties</b>	<b>CBL</b>	<b>\$7.99</b>	<b>\$0.80</b>	<b>10.0%</b>	<b>36.2%</b>	<b>\$2.69</b>	<b>\$2.21</b>	<b>\$2.03</b>	<b>-24.5%</b>	<b>3.6x</b>	<b>3.9x</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.

*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.

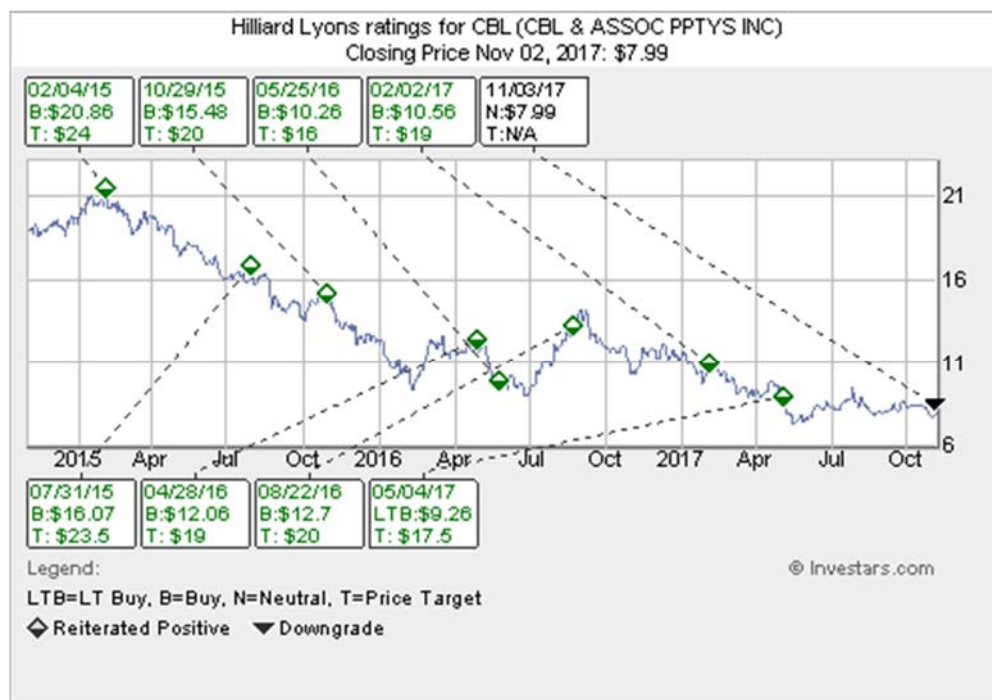
### **Suitability Ratings**

**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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

### Other Disclosures

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