

EastGroup Properties

4Q23: beats & introduces 2024 guidance broadly in line with expectations

Maintain Rating: BUY | PO: 195.00 USD | Price: 179.35 USD

Another solid quarter driven by strong core operations

4Q23 FFO grew +12% Y/Y to \$2.03, which was slightly above the Street (\$2.01). Core operating results remained strong during the quarter with cash SS NOI +7.5% Y/Y (+60bp Q/Q) and average SS occupancy 98.4% (+30bp Q/Q). We attribute the beat to better-than-expected core NOI. We maintain our Buy given EGP's strong operating platform and balance sheet and exposure to growing Sunbelt markets.

'24 guidance implies healthy growth; we see risk to upside

EGP introduced 2024 FFO/sh guidance of \$8.17-8.37. The \$8.27 midpoint implies +7% Y/Y growth and is broadly in line with the Street (\$8.29). The cash SS NOI range of 5.5-6.5% compares to our 8.5%. EGP outperformed its initial 2023 cash SS NOI guidance of +6% by +200bp. Average operating portfolio occupancy was 96.5-97.5% vs. 98.0% in 2023. Other assumptions include \$300mn of development starts, \$130mn and \$35mn of operating property acquisitions and dispositions, \$465mn of equity issuance and \$20mn of G&A. We see guidance as conservative and look to the call for more details. Our 2024 estimate is on the high end of guidance and see upside risk for beats and bumps.

Leasing activity highlights strength in demand

EGP signed 2.0 million SF of new and renewal leases at record +62% GAAP / +43% cash leasing spreads. Results highlight continued strength in demand and landlord pricing power across EGP's diversified and growing Sunbelt markets.

Continued progress unlocking value through developments

The development pipeline stands at \$575mn and is 23% leased (+500bp Q/Q) with \$200mn left to spend. Projected stabilized yields are 6.8%. During the quarter, EGP transferred a 100,000 SF development project in Fort Myers to the operating portfolio. This brings the FY23 total to 2.3 million SF of projects costing \$280mn, all of which are 100% leased.

Strong balance sheet enables external growth

EGP acquired three operating properties totaling 577,000 SF for \$78mn in 4Q as well as 118 acres of development land for \$26mn. It also sold two properties totaling 106,000 SF for \$29mn, realizing a \$13mn gain. Debt to EBITDA declined to 3.92x from 4.07x Q/Q. EGP also sold 1.4 million shares during the quarter for \$232mn net proceeds.

What to look for on the call tomorrow

EGP's earnings conference call is tomorrow, 2/8 at 11AM ET. We look for more color on tenant demand and the leasing pipeline including activity in Jan/early Feb, the transaction market and latest view on cap rates, development pipeline, thoughts about sources and uses of capital in 2024 and any update on the portfolio's mark to market.

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Equity

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Stock Data

Price	179.35 USD
Price Objective	195.00 USD
Date Established	30-Oct-2023
Investment Opinion	B-1-7
52-Week Range	152.45 USD - 188.85 USD
Mkt Val (mn) / Shares Out (mn)	8,300 USD / 46.3
Free Float	98.6%
Average Daily Value (mn)	43.81 USD
BofA Ticker / Exchange	EGP / NYS
Bloomberg / Reuters	EGP US / EGP.N
ROE (2023E)	8.5%
Net Dbt to Eqty (Dec-2022A)	86.7%
ESGMeter™	Medium

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Key Terms:

bp: basis points
FFO: funds from operations
G&A: general and administrative
Q/Q: quarter over quarter
SF: square feet
SS: same store
NOI: Net Operating Income
Y/Y: year over year

Price objective basis & risk

EastGroup Properties (EGP)

Our \$195 price objective for EGP reflects our forward NAV estimate. We believe there is a secular demand tailwind for warehouse space and EGP's strong regional platform. We apply a 4.3% cap rate to our forward nominal cash NOI estimate of \$472M to calculate our NAV. We use this cap rate for EGP based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of EGP.

Downside risks to our price objective are a slower recovery in operating fundamentals and tenant demand, excess supply, and a slowdown in development opportunities. A tightening in credit markets could also weigh on access to capital, borrowing costs, and portfolio real estate values.

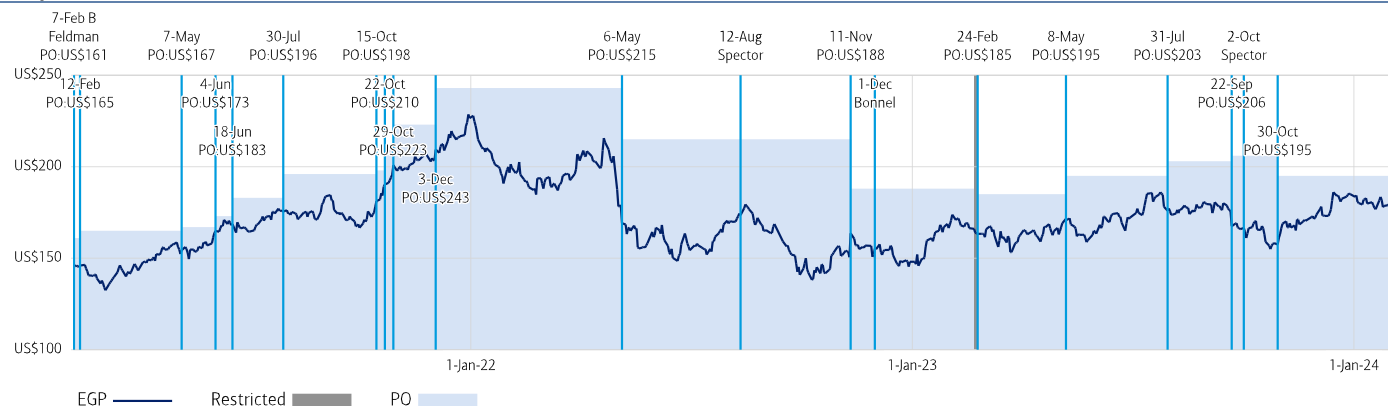
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EastGroup (EGP) Price Chart



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Equity Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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