CBL & Associates Properties: I am long a REIT that owns and manages shopping malls

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I haven't been to a shopping mall since 2015. Like many of you, the day I subscribed to Amazon Prime was the day my shopping behavior changed dramatically. No more waiting in line to be assisted by a disgruntled teenager; no more mindlessly spending my hard earned cash at the Apple Store; no more having to remember where I parked the car.

While the problems related to physical shopping had pretty much disappeared, digital problems have crept up. As I type these words, I am wearing a pair of jeans that are not quite my size, and the color of my dress shoes is a shade of dark gray, an unpopular choice to say the least (but this esoteric color was on sale and I could not resist the bargain).

But overall, I am a convert to online shopping and the first to admit that a visit to a shopping mall in the future, will not be the same as it was in the past. But that does not necessarily mean that companies that own shopping malls are doomed to fail.

Take CBL & Associates Properties as an illustration. The company manages a commercial real estate portfolio of 75 million square feet that consists of over 70 malls in over 27 states. Its stock commenced to trade in 1993 and management paid an average of a dollar of dividends for over twenty years. And while the ratio of operating earnings to interest expense is thin (a mere ratio of 1.38 times between 2012 and 2016) and declining (from a ratio of 1.52 times in 2012 to 1.17 in 2016), I just had to purchase a few shares in the company.

Here is what I saw: net income available to common shareholders was $128 million in 2016 compared to $84 million in 2012. And during that five-year period, earnings per share increased to $0.75 from $0.54 with an average earnings per share of $0.58. And funds from operations available to common shareholders tell a similar story: $460 million or $2.69 a share in 2016 compared to $373 million or $2.41 per share in 2012.

But there are other publicly-traded real estate companies that show a growth in earnings. To me, what is special about CBL & Associates is its declining stock price.

CB&L Stock Price

At the end of 2012 the stock price was $21 a share. At the time, the company earned $0.54 a share as I mentioned, had $40.88 of net real estate investments; $31.06 of liabilities; and $9.82 of book value equity. Take from the prior two sentences that the stock traded at (1) an earnings multiple greater than 40 times and (2) over two times the equity book value.

In 2016 the company's stock price had declined but was still expensive at $11 a share. That year, the company had earned $0.24; had $32.31 of net real estate investments; $24.46 of liabilities; and $7.85 of book value equity. In short, at yearend 2016, the stock traded (1) at a reasonable earnings multiple of about 15 times and still (2) at a premium to the equity book value.

But at a stock price of $5.50 quoted as of this week, I just had to purchase a few shares. I estimated that the 2017 earnings (yet to be disclosed) will be over $0.70 earnings a share, and so my purchase was at about 8 times the expected 2017 earnings and slightly below the $6.79 equity book value per share.

That is in the past. For the rest of this article let us focus on the future. I assume two things: (1) the management will continue to pay a dollar of dividends per share and (2) capital markets will value the company at an earnings multiple of, say, 15 times the earnings, sometime over the next five years. And should the two assumptions hold to be true, the expected return range is between 110% and 23%.

Expected return over the next five years

That is on the numbers-side. On the spiritual, gut-feeling side, I purchased shares in CBL & Associates because the founder's last name is Lebowitz, which is only an "i" away from Leibowitz. And while the two families are unrelated, the Leibowitz family which lived in Israel at the turn of the 20th century is one of the wisest, most impressive dynasties – in terms of intellect, not power - and certainly a family that I admire. Here is a brief overview of the family.

Yeshayahu Leibowitz was an intellectual, professor of biochemistry, organic chemistry and neurophysiology at the Hebrew University of Jerusalem and a polymath known for his outspoken opinion on Judaism, religious and politics. Read Judaism, Human Values, and the Jewish State if you are interested in his writings.

His sister, Nechama Leibowitz, was a noted Israeli bible scholar and commentator who rekindled my interest in bible study. Read her commentaries on the weekly Parasha if you need to rekindle an admiration to bible study and are seeking wisdom in general.

Professor Elia Leibowitz, Yeshayahu's son, is an astrophysicist who spends his time studying research photometry with high temporal resolution of novae near maxium light, at the Faculty of Exact Sciences at Tel Aviv University.

Elia's sister, Mira Ofran, is a physicist at Jerusalem University. And the list goes on and on. Research the family and you will find a neurobiologist, a mathematician, a chemist and a lawyer. I will spare you their details but mention Yeshayahu's grandson, Yoram Yovell, who is a psychologist and a researcher of the mind. I highly recommend his books on the science of love.

I got side tracked. Let us return to a few last paragraphs on CBL & Associates and the business of managing shopping malls. In Paired Analysis: The case of Regal Entertainment, I wrote

I purchased a few shares in RGC, and not in AMC, because of two arithmetic reasons and one ego-related reason. First, the average earnings multiple over the past decade ranged between 28 and 19 times. With the current market price of about $15, I purchased RGC at an earnings multiple of 17 times the 10-year average earnings per share.

Second, RGC had not showed a loss over the past ten years. Third, I wanted to be in the entertainment business. Many of my friends have movie scripts hidden in their drawers; some have even auditioned. And the lure of the entertainment business has not bypassed yours truly.

The same rationale applies to CBL and Associates. And if I was to copy and slightly edit the above sentence it would read: I purchased a few shares in CBL & Associates because of two arithmetic reasons. First, the average earnings multiple over the past decade ranged between 33 and 30 times the

earnings. With the current market of about $5.5, I purchased CBL at an earnings multiple of less than 10 times the expected 2017 earnings and 13 times the 10-year average earnings per share. Second, only in 2009 CBL showed a loss of $0.35 a share.

And now I hope you will go read books about love.