

AvalonBay Communities (AVB)

\$154.18 (As of 05/25/20)

Price Target (6-12 Months): **\$163.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

AvalonBay's first-quarter 2020 core funds from operations (FFO) per share increased 3.9% year over year, reflecting growth in average rental rates and economic occupancy. While the company has received 96% of its typical residential collections in April, it is trending slightly lower in May. AvalonBay is anticipated to benefit from its high-quality assets in premium locations. It has a healthy balance sheet, and is leveraging technology, scale and organizational capabilities to drive growth. However, the coronavirus pandemic is resulting in unfavorable impact on the economy and the job market. Amid this, demand for apartments and rent-paying capability of tenants will be adversely impacted and therefore, rental rates and occupancy are likely to bear the brunt. Also, its shares have underperformed the industry it belongs to over the past year.

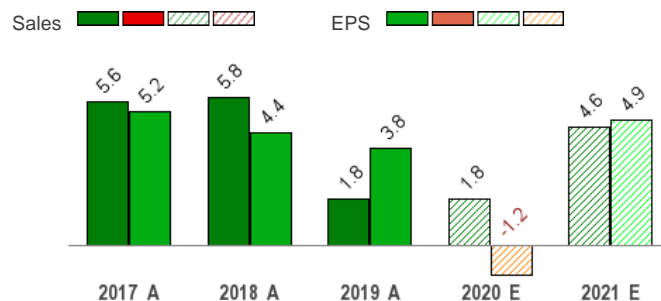
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$229.09 - \$118.17
20 Day Average Volume (sh)	1,216,890
Market Cap	\$21.6 B
YTD Price Change	-26.7%
Beta	0.85
Dividend / Div Yld	\$6.36 / 4.1%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 31% (77 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.4%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	NA
Earnings ESP	-0.9%
P/E TTM	16.3
P/E F1	16.7
PEG F1	3.0
P/S TTM	9.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	603 E	607 E	613 E	616 E	2,476 E
2020	602 A	598 E	597 E	603 E	2,366 E
2019	460 A	577 A	588 A	594 A	2,325 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.30 E	\$2.36 E	\$2.42 E	\$2.48 E	\$9.68 E
2020	\$2.39 A	\$2.23 E	\$2.25 E	\$2.32 E	\$9.23 E
2019	\$2.30 A	\$2.27 A	\$2.34 A	\$2.43 A	\$9.34 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/25/2020. The reports text is as of 05/26/2020.

Overview

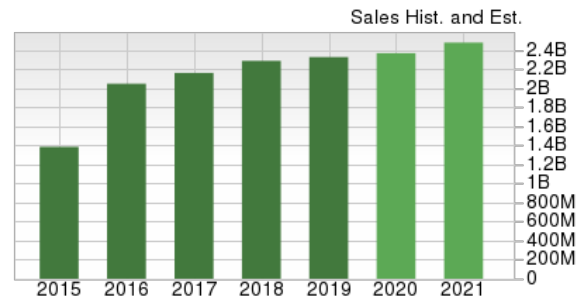
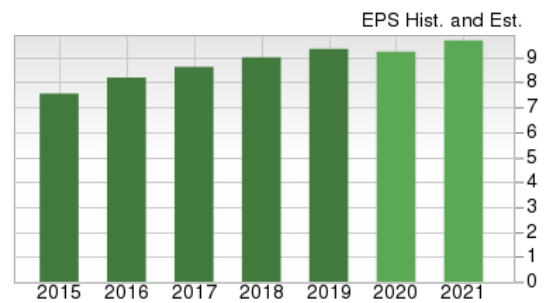
AvalonBay Communities, Inc. is a real estate investment trust (REIT) primarily focusing on developing, redeveloping, acquisition, ownership and operations of multi-family apartment communities for higher-income clients in high barrier-to-entry regions of the United States, which generally command the highest rents in the markets.

These markets include New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. The company is also targeting expansion in Southeast Florida and Denver, CO.

The company focuses on metropolitan areas historically experiencing rising employment in high wage sectors of the economy, along with high home ownership cost and vibrant quality of life. The company has a principal executive office in Arlington, VA, and a number of regional offices, administrative offices or specialty offices in its markets.

AvalonBay owned or held direct or indirect ownership stake in 296 apartment communities as of Mar 31, 2020. These communities included 86,596 apartment homes in 11 states and the District of Columbia. Of the total communities, 19 were under construction as of the same date.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ AvalonBay has high quality assets located in some of the premium markets of the country, which enable the company to generate steady rental revenues. In fact, the company's properties generally command the highest rents in its markets. Moreover, the company's \$4.1-billion development rights pipeline provides flexibility to take advantage of future market conditions. Despite the coronavirus pandemic-induced crisis, the company was able to make roughly 96% of typical residential collections in April, with the collection rate strongest for higher income segments. The April collection rate for market rate segment (representing 94% of billed residential revenue) was the highest at 94.5%.
- ▲ Demographic growth also continues to be strong in the young-adult age cohort, which has a higher propensity to rent. People in the age bracket of 20-34 are the main cohort for formation of the new households and majority of them prefer to remain renters and enjoy locational advantage as well as flexibility that rental apartments offer. Further, a significant change in lifestyle has taken place and life cycle events are getting delayed. This is leading to an extension of the average age of first-time homeownership. Moreover, transition from renter to homeowner is difficult in its markets due to high cost of homeownership.
- ▲ AvalonBay is also leveraging technology, scale and organizational capabilities to drive innovation and margin expansion in its portfolio. This has become all the more essential in this social-distancing era, as the virus outbreak needed a quick shift to virtual operations for the continuity of normal business operations.
- ▲ AvalonBay has a healthy balance sheet and ample liquidity to sail through these uncertain times. The company exited first-quarter 2020 with \$1.8 billion of liquidity, including remaining line of credit capacity and cash on hand. The company's development activity remaining to be funded amounts to \$900 million, of which about \$400 million is expected to be expended over the remainder of the current year. Its debt maturity schedule is well laddered with only \$70 million of debt maturing in late 2020 and \$330 million in 2021. Given its current liquidity position, both development spends and debt maturities seem manageable. In addition, at the quarter end the company's net debt to core EBITDA of 4.6 times, which is below the company's target range of five times to six times, while interest coverage is 7.0 times. Backed by its operating platform and market position, the company remains well poised to source attractively priced debt capital from the unsecured and secured debt markets. Further, it generates 93% unencumbered NOI, providing scope for tapping additional secured debt capital if required.
- ▲ Also, solid dividend payouts are arguably the biggest enticement for REIT investors and AvalonBay has consistently paid dividends each year since it went public in 1994. In fact, concurrent with its fourth-quarter 2019 earnings release, AvalonBay announced a 4.6% hike in its quarterly dividend rate, which continued the more than 20-year history of solid dividend growth. Since its IPO, the company has achieved annualized dividend growth of 5.2%. Along with a healthy balance sheet, such efforts boost investors' confidence in the stock.

AvalonBay has high quality assets in some of the premium markets of the nation. It has a healthy balance sheet and is leveraging technology, scale and organizational capabilities to drive growth.

Reasons To Sell:

- ▼ The coronavirus pandemic has been wreaking havoc and resulting in macroeconomic uncertainty and choppy job-market environment. This is likely to affect demand in the prime leasing season. Moreover, amid this situation, the rent-paying capability of tenants is likely to get maimed. Amid this, the company has adopted a number of measures, including offering flexible lease renewal options at no rent hike for leases expiring through Jun 30, 2020, making payment plans for residents who are unable to pay their rent because of the crisis as well as waiving late fees and some other customary fees associated with apartment rentals. As such, the company's top line is likely to bear the brunt in the near term, with adverse impact on rental rates and occupancy.
- ▼ Furthermore, amid a slowdown in demand, concession activity is likely to be high despite a decline in new apartment deliveries. Moreover, new rent-control regulations have been introduced in some of the major markets in recent times, while a number of other markets are being considered for establishing such regulations in future. This is likely to curb any significant growth in the top line. In addition, the company noted that construction is proceeding at a number of its development communities, but at a slower pace.
- ▼ The company also faces stiff competition from other housing alternatives such as rental apartments, condominiums and single-family homes. Such a competitive landscape limits the company's ability to increase rent, thereby restricting its growth momentum to some extent.
- ▼ Shares of AvalonBay have declined 25.1% over the past year, wider than its industry's decline of 16.8%. Also, the trend in estimate revision for current-year FFO per share is not favorable for the company. The Zacks Consensus Estimate for 2020 FFO per share witnessed a 1% downward revision over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Adverse impact of coronavirus pandemic on economy and job market will likely affect demand and hurt the rent-paying capability of tenants, leading to rental concessions and pricing-power moderation.

Last Earnings Report

AvalonBay Q1 FFO and Revenues Miss Estimates, Up Y/Y

AvalonBay's first-quarter 2020 core FFO per share of \$2.39 increased 3.9% year over year. However, the figure narrowly missed the Zacks Consensus Estimate of \$2.40.

This year-over-year increase reflects growth in average rental rates and economic occupancy.

Total revenues of \$601.7 million were up 6.3% year over year. However, the revenue figure missed the Zacks Consensus Estimate of \$601.9 million.

The company has also apprised about the April residential revenue collections for established communities, through Apr 30, 2020, in light of the coronavirus pandemic. The collected residential revenues (denoting the part of billed residential revenue that has been collected and satisfied) were 93.9%, while deferred and uncollected residential revenues came in at 6.1%.

Moreover, the company noted that retail revenues for established communities denoted 1.4% of the total revenues for established communities for full-year 2019. For the month of April, collected retail revenues and deferred and uncollected retail revenues was 44% and 56%, respectively.

Quarter in Detail

In the reported quarter, revenues from established communities improved 3% year over year to \$547.9 million. Results reflect a 2.7% increase in average rental rates and 0.4% growth in economic occupancy.

Operating expenses for established communities rose 3.2% on a year-over-year basis. Consequently, NOI from established communities climbed 3% year on year to \$391.6 million.

Portfolio Activity

During the first quarter, AvalonBay sold wholly-owned operating community — Avalon Shelton — in Shelton, CT, for \$64.7 million, leading to a gain in accordance with GAAP of \$24.4 million and economic gain of \$14.9 million. It also sold 36 of the 172 residential condominiums at The Park Loggia, in New York, NY, for \$105.6 million. In addition, following the quarter end and through May 6, the company sold five residential condominiums for \$23.3 million.

Further, during the March-end quarter, AvalonBay completed the development of three apartment communities — Avalon Teaneck, in Teaneck, NJ; Avalon North Creek, in Bothell, WA; and Avalon Norwood, located in Norwood, MA — comprising a total of 762 apartment homes, for a total capital cost of \$217 million.

During the January-March period, the company did not commence the construction of any new development communities. As of Mar 31, 2020, AvalonBay had 19 development communities under construction (expected to contain 6,198 apartment homes and 64,000 square feet of retail space). The estimated total capital cost at completion for these development communities is \$2.32 billion at share.

Notably, at the end of the first quarter, AvalonBay had an estimated remaining total capital cost of \$873 million for investment over the next several years. These include the 19 development communities under construction as well as the recently-accomplished development communities.

As of Mar 31, 2020, the projected total capital cost of development rights decreased to \$4.1 billion from the prior-quarter end's \$4.2 billion.

Balance Sheet Position

As of Mar 31, 2020, AvalonBay had \$750-million outstanding under its \$1.75-billion unsecured credit facility. Together with the amounts drawn on the unsecured credit facility, the company had \$868.4 million in unrestricted cash and cash in escrow as of the same date. In addition, its annualized net debt-to-core EBITDA for the January-March quarter was 4.6 times and unencumbered NOI was 93%.

Furthermore, as of Apr 30, 2020, the company had \$215-million outstanding under its unsecured credit facility following the use of unrestricted cash for net repayments of \$535 million in April.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.04%
EPS Surprise	-0.42%
Quarterly EPS	2.39
Annual EPS (TTM)	9.43

Recent News

Dividend Update

On May 12, AvalonBay's board of directors announced second-quarter 2020 dividend of \$1.59 per share. This dividend will be paid on Jul 15, to common stockholders of record as of Jun 30, 2020.

Valuation

AvalonBay's shares are down 25.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 16.8% and the Zacks Finance sector declined 19.3% over the past year.

The S&P 500 Index is up 4.5% over the past year.

The stock is currently trading at 16.33X forward 12-month FFO, which compares to 16.90X for the Zacks sub-industry, 15.35X for the Zacks sector and 21.50X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.09X and as low as 12.27X, with a 5-year median of 20.81X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$163 price target reflects 17.32X FFO.

The table below shows summary valuation data for AVB.

Valuation Multiples - AVB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	16.33	16.9	15.35	21.5
	5-Year High	23.09	22.36	16.18	21.5
	5-Year Low	12.27	15.54	11.58	15.23
	5-Year Median	20.81	18.47	13.94	17.49
P/S F12M	Current	8.97	9.08	5.81	3.33
	5-Year High	12.97	12.16	6.7	3.44
	5-Year Low	6.87	7.42	4.99	2.53
	5-Year Median	11.61	9.25	6.05	3.01
P/B TTM	Current	1.98	2.37	2.12	4.04
	5-Year High	2.9	3.3	2.9	4.56
	5-Year Low	1.54	1.82	1.71	2.83
	5-Year Median	2.46	2.41	2.53	3.65

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Top 31% (77 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Apartment Investment and Management Company (AIV)	Neutral	3
Camden Property Trust (CPT)	Neutral	4
Equity Residential (EQR)	Neutral	4
Essex Property Trust, Inc. (ESS)	Neutral	3
Investors Real Estate Trust (IRET)	Neutral	3
MidAmerica Apartment Communities, Inc. (MAA)	Neutral	3
NexPoint Residential Trust, Inc. (NXRT)	Neutral	3
United Dominion Realty Trust, Inc. (UDR)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	AVB	X Industry	S&P 500	EQR	ESS	MAA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	F	-	-	D	F	D
Market Cap	21.63 B	1.15 B	20.16 B	21.36 B	15.47 B	13.07 B
# of Analysts	9	5	14	12	11	7
Dividend Yield	4.14%	4.38%	2.11%	4.20%	3.52%	3.50%
Value Score	F	-	-	D	D	D
Cash/Price	0.04	0.04	0.07	0.00	0.02	0.00
EV/EBITDA	19.42	16.21	12.07	13.44	18.97	16.64
PEG Ratio	3.05	3.65	2.72	3.66	4.83	NA
Price/Book (P/B)	1.98	1.73	2.77	1.99	2.41	2.10
Price/Cash Flow (P/CF)	14.48	12.40	10.95	11.47	17.35	15.20
P/E (F1)	17.24	14.28	20.22	16.86	17.62	18.33
Price/Sales (P/S)	9.16	5.56	2.12	7.85	10.34	7.88
Earnings Yield	6.01%	7.00%	4.71%	5.92%	5.67%	5.46%
Debt/Equity	0.76	1.06	0.76	0.80	1.01	0.72
Cash Flow (\$/share)	10.61	2.46	6.96	5.00	13.62	7.52
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	3.83%	3.28%	10.87%	0.75%	8.04%	3.28%
Proj. EPS Growth (F1/F0)	-1.19%	-0.74%	-10.31%	-2.44%	0.26%	-4.80%
Curr. Cash Flow Growth	-9.39%	7.20%	5.46%	23.84%	5.93%	20.94%
Hist. Cash Flow Growth (3-5 yrs)	6.67%	17.18%	8.55%	5.74%	12.62%	15.27%
Current Ratio	2.72	1.55	1.29	0.36	1.64	0.11
Debt/Capital	43.14%	50.61%	44.54%	45.48%	50.43%	41.91%
Net Margin	33.20%	14.33%	10.54%	43.16%	42.47%	19.66%
Return on Equity	7.21%	4.98%	16.27%	11.20%	9.94%	5.33%
Sales/Assets	0.12	0.13	0.54	0.13	0.12	0.15
Proj. Sales Growth (F1/F0)	6.62%	1.29%	-2.49%	-0.78%	4.81%	1.01%
Momentum Score	D	-	-	C	D	C
Daily Price Chg	-0.33%	0.00%	0.12%	-0.91%	0.42%	0.40%
1 Week Price Chg	-8.30%	-9.45%	-4.56%	-11.04%	-8.15%	-7.53%
4 Week Price Chg	-2.40%	4.80%	5.28%	-10.05%	-2.01%	8.86%
12 Week Price Chg	-26.00%	-26.00%	-8.60%	-26.84%	-20.32%	-14.84%
52 Week Price Chg	-24.58%	-24.58%	-6.15%	-25.56%	-18.31%	-0.60%
20 Day Average Volume	1,216,890	788,173	2,645,192	2,820,919	464,546	847,546
(F1) EPS Est 1 week change	-0.95%	0.00%	0.00%	-1.02%	-0.22%	-0.39%
(F1) EPS Est 4 week change	-1.85%	-2.24%	-3.80%	-2.88%	-1.68%	-2.24%
(F1) EPS Est 12 week change	-5.91%	-6.11%	-16.57%	-6.11%	-4.32%	-4.80%
(Q1) EPS Est Mthly Chg	-1.57%	-3.54%	-7.64%	-3.50%	-1.95%	-2.37%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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