

Duke Realty Corp. (DRE)

\$34.37 (As of 01/02/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

Shares of Duke Realty have outperformed its industry over the past six months. In order to capitalize on the growing demand for warehouse/distribution space in Greenfield North Business Park, the company commenced the construction of a speculative property in early December. Notably, the industrial real estate market is currently enjoying elevated demand for logistics infrastructure amid stable economy and e-commerce boom. Duke Realty is well poised to capitalize on this trend, given its solid balance sheet. The company is focused on building a superior portfolio through acquisitions and development, on a speculative and build-to-suit basis, in high-barrier markets with stellar growth potential. Nevertheless, rising supply and protectionist trade policies are key concerns. Also, near-term dilutive impact from dispositions cannot be bypassed.

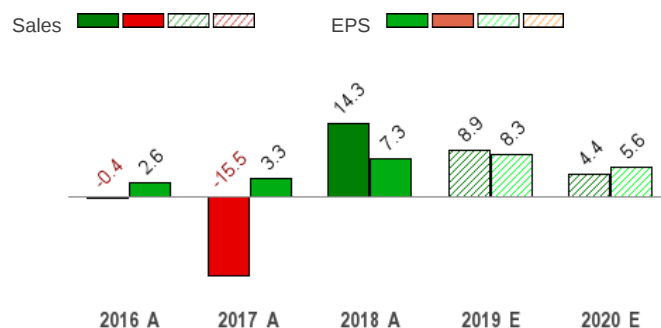
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.04 - \$24.88
20 Day Average Volume (sh)	1,579,202
Market Cap	\$12.6 B
YTD Price Change	-0.9%
Beta	0.67
Dividend / Div Yld	\$0.94 / 2.7%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 36% (162 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	24.4
P/E F1	22.6
PEG F1	5.0
P/S TTM	12.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	220 E	222 E	224 E	226 E	893 E
2019	210 A	213 A	215 A	217 E	855 E
2018	235 A	211 A	197 A	203 A	785 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.36 E	\$0.38 E	\$0.39 E	\$0.40 E	\$1.52 E
2019	\$0.33 A	\$0.36 A	\$0.37 A	\$0.38 E	\$1.44 E
2018	\$0.31 A	\$0.33 A	\$0.35 A	\$0.35 A	\$1.33 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 01/02/2020. The reports text is as of 01/03/2020.

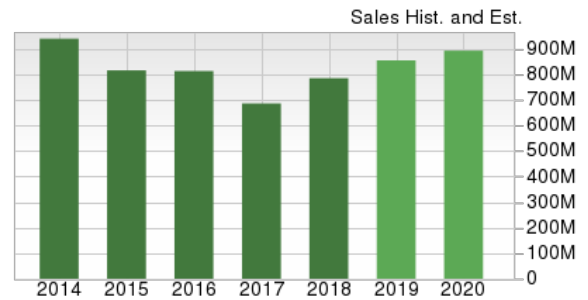
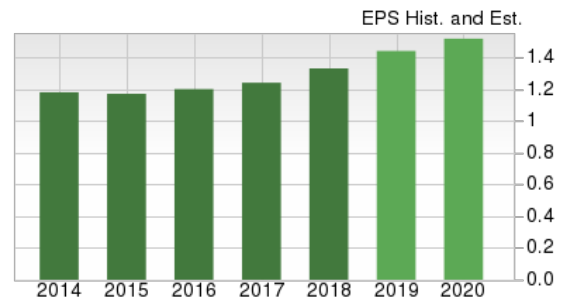
Overview

Headquartered in Indianapolis, IN, Duke Realty Corporation is a domestic pure-play industrial REIT in the United States, engaged in owning, managing and developing industrial properties across the nation. Its portfolio of industrial properties comprises about 155 million rentable square feet. These properties are located in 20 key logistics markets.

Particularly, as of Sep 30, 2019, Duke Realty enjoyed ownership or jointly controlled 516 industrial properties. Of these, 497 properties with 148 million square feet were in service and 19 properties with 7.2 million square feet were under development.

Notably, Duke Realty opted for a series of asset sales in the past few years to shed medical and suburban office properties from its portfolio. These dispositions have helped the company simplify its business model and to turn into a leading domestic pure play industrial REIT. The company now focuses on building a superior portfolio of industrial properties through acquisitions and development, on a speculative and build-to-suit basis, in high-barrier markets with solid growth potential.

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:

- ▲ Duke Realty has more than 45 years of experience in operation and development of industrial real estate. It focuses on having facilities in major MSA's and key trucking, rail, air cargo and shipping corridors. Such locations help generate solid demand from e-commerce and traditional distribution customers for its industrial properties. Moreover, in recent years, the company opted for a series of asset sales to complete the disposition of its medical office properties and residual suburban office properties. These dispositions have helped the company simplify its business model and turn it into a leading domestic pure-play industrial REIT.
- ▲ Amid an e-commerce boom, growth in industries and companies making efforts to improve supply chain efficiencies, demand for logistics infrastructure and efficient distribution networks has been increasing. This is helping the industrial real estate market to grow and given Duke Realty's solid capacity to offer modern, bulk distribution properties, the company remains well poised to capitalize on this trend. The company is making efforts to upgrade its portfolio on the back of development and acquisitions in high-barrier markets with solid growth potential. In fact, given development starts so far this year and solid build-to-suit prospects, the company raised its guidance for development starts to \$1-\$1.15 billion from the prior expectation of \$900 million-\$1.1 billion. Also, acquisition of properties is expected in the band of \$175-\$225 million. Further, the company is making efforts to increase exposure in Tier 1 markets to 70% (on gross asset value basis) by 2021 end, through disciplined capital-recycling efforts.
- ▲ With respect to tenants, the company has a big-box focus. This helps the company have higher credit quality tenants on its roster. Also, this leads to fewer overall tenants that the company needs to manage. Additionally, 16% of the company's tenant base is e-commerce oriented, enabling it to capture growth opportunities from the e-commerce boom.
- ▲ Duke Realty remains committed toward enhancing its balance-sheet position and improve its leverage metrics. With a flexible balance-sheet position, the company is well poised to capitalize on growth opportunities and address debt maturities in the future. In fact, Duke Realty does not have any significant debt maturities until 2022.
- ▲ Solid dividend payouts remain arguably the biggest attraction for REIT investors and Duke Realty has raised its regular common dividend rate by 9.3% to 23.50 cents for its third-quarter 2019 dividend. Previously, the company raised dividend payouts by 7.5%, 5.3%, 5.6% and 5.9% fourth-quarter 2018, 2017, 2016 and 2015 respectively. Furthermore, the company contributed \$70 million toward special dividend in 2015. Also, during the fourth-quarter of 2017, the company paid 85 cents as special dividends. Given the company's financial position and lower debt-to-equity ratio compared to that of the industry, this dividend payout is expected to be sustainable.
- ▲ In the past six months, shares of Duke Realty have outperformed the industry it belongs to. During this period, shares of the company have appreciated 5.4% compared with the industry's 2.4% growth. Additionally, the trend in estimate revisions of 2019 FFO per share indicates a favorable outlook for the company, as it has witnessed marginal upward estimate revision over the past two months. Therefore, given its progress on fundamentals and positive estimate revision, the stock has decent upside potential.

Amid healthy industrial real estate market, Duke Realty's efforts to boost its ownership of strategically-located high-quality properties and decent balance-sheet position augur well for growth.

Reasons To Sell:

- ▼ Recovery in the industrial market has continued for long and chances of any striking decrease in availability rates are less. In fact, a whole lot of new buildings are slated to be completed and made available in the market in the near term, leading to higher supply and lesser scope for rent and occupancy growth. Also, any protectionist trade policy will have an adverse impact on economic growth. This, in turn, might affect the company's business and limit its growth tempo.
- ▼ Duke Realty has been enhancing its portfolio mix through continued divestitures. The company opted for a series of asset sales in 2017 to complete the disposition of nearly all of its medical office properties. Furthermore, the company sold almost all of its residual suburban office properties during the same year. Also, for 2019, the company anticipates dispositions of non-strategic properties of \$450-\$500 million. While such efforts are a strategic fit for the long term, the near-term dilutive effect cannot be bypassed. In fact, such short-term impact tends to drag the company's quarterly results and weigh on its profitability.
- ▼ Although Duke Realty's large development pipeline is encouraging for its future growth, it increases operational risks by exposing it to rising construction costs, entitlement delays and lease-up risks. Notably, in recent quarters, the company enhanced the amount of speculative development in its portfolio. Particularly, the company's overall development pipeline at the end of the third quarter consisted of 19 projects under construction, aggregating 7.2 million square feet of space under construction, at projected stabilized cost of \$916 million. These projects are 46% pre-leased.
- ▼ Although interest rate levels are low at present, any hike in the future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost, which would affect its ability to purchase or develop real estate and lower dividend payouts. Moreover, the company's dividend payout might become less attractive than the yields on fixed income and money-market accounts.

Rising supply of industrial real estate space in Duke Realty's markets, which is fueling competition, and operational risk related to a large development pipeline are key concerns for the company.

Last Earnings Report

Duke Realty's Q3 FFO Meets Estimates, Revenues Up

Duke Realty's third-quarter 2019 core FFO per share of 37 cents came in line with the Zacks Consensus Estimate. Moreover, the bottom line increased from the year-ago quarter's reported figure of 35 cents.

Results indicated overall improved operations and increased investments in new industrial properties. The company has also raised its core FFO per share guidance for the year and announced a hike in the quarterly dividend.

Rental and related revenues of \$215.4 million increased 9.4% on a year-over-year basis. However, the figure narrowly missed the Zacks Consensus Estimate of \$215.9 million.

Quarter in Detail

Duke Realty leased 7 million square feet of space during the September-end quarter. Tenant retention was 80.4%. Moreover, the company registered same-property net operating income (NOI) growth of 2.8% year over year. In fact, Duke Realty reported overall cash and annualized net effective rent growth on new and renewal leases of 13.7% and 26.8%, respectively, for the quarter.

Notably, same-property NOI for third-quarter 2019 bears the negative impact of a previously-announced tenant bankruptcy as well as relocation of a tenant from two of the company's current properties to one of its newly-completed build-to-suit developments.

As of Sep 30, 2019, the company's total portfolio, including properties under development, was 93.9% leased, up 50 basis points (bps) from the prior-quarter end, and 20 bps from the prior-year period end. In-service portfolio was 96.2% leased as of Sep 30, 2019, up from 95.4% leased at Jun 30, 2019 but down from 96.8% at Sep 30, 2018.

Notably, during the third quarter, the company started five development projects aggregating 1.9 million square feet, with estimated costs of \$203 million. Moreover, six projects totaling 1.3 million square feet, which were 92% leased in total, were placed in service.

Further, during the quarter, the company acquired a 252,000 square foot project in South Florida, which was fully leased. The company's building dispositions totaled \$280 million in the third quarter.

Duke Realty exited third-quarter 2019 with \$121.2 million of cash and cash equivalents, up from \$17.9 million as of Dec 31, 2018.

2019 Guidance

Duke Realty has raised its 2019 core FFO per share guidance to \$1.42-\$1.46 from the prior estimate of \$1.41-\$1.45. This was backed by the company's efficiency in driving strong rental rate growth as well as lease-up of its speculative developments at better rental rates.

The company revised estimates for same-property NOI growth to 4.4-4.8% from 4-5%. The guidance for acquisitions of properties has been raised to \$175-\$225 million from the prior projection of \$100-\$200 million. The projection for building dispositions is revised to \$450-\$500 million from the previous outlook of \$350-\$550 million.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-0.26%
EPS Surprise	0.00%
Quarterly EPS	0.37
Annual EPS (TTM)	1.41

Recent News

Duke Realty to Build Speculative Property in Raleigh Market – Dec 2, 2019

Duke Realty has been witnessing robust demand for its properties in Greenfield North Business Park, a master-planned industrial campus in Garner, N.C. The company's existing buildings in the park are fully leased, and Duke Realty is now constructing its eighth building, Greenfield North 1201, on a speculative basis there.

This new 165,921-square-foot bulk warehouse is expected to be completed in July 2020. The property will feature 32' clear height, 50' x 50' column spacing, 30 – 9' x 10' dock doors and two 12' x 14' drive-in doors. Moreover, outside the building there will be a 120' truck court and parking for 96 trailers and 129 automobiles.

Enhancing its property base in the Greenfield North Business Park is beneficial for a domestic pure-play industrial REIT like Duke Realty, as it is located at the interchange of I-40 and U.S. 70 and the proposed extension of I-540. Further, it is the only rail-served industrial park in the Raleigh area, and is close to RDU International Airport and the I-440 Beltline. Therefore, with high-quality warehouse space and superior highway access, the buildings in this park grab a lot of attention from tenants in need of warehouse/distribution space.

In fact, Raleigh has emerged as a strong industrial market for Duke Realty. The company already enjoys a solid presence in the Raleigh metro area, with 2.9 million square feet of industrial properties.

The company's latest expansion move makes it well poised to meet clients' immediate space needs. Furthermore, it has 10.87 acres of space available for development in Greenfield North Business Park, which can support the construction of a 136,400-square-foot building.

Duke Realty Pre-Leases Perris Facility, Starts Building Another – Nov 11, 2019

Duke Realty announced entering into a long-term lease agreement for one of its logistic buildings in Perris, CA. The company has also commenced construction of another facility in the Inland Empire East sub-market, as part of its effort to capitalize on the growing demand for modern distribution space in the region.

The 1 million-square-foot building, for which the company has secured a full-building lease, is located at 4375 N. Perris Avenue. Currently under construction, the property will likely be delivered in second-quarter 2020.

The building sits on a 54-acre site at the corner of Perris Avenue and Markham Street. Its features include 40' clear height, 138 dock doors, 245 trailer stalls, 608 auto parking spaces, and 4-grade level loading doors.

Further, the development of the 800,218-square-foot logistics building at 4501 Patterson Avenue in Perris has been initiated by the company, likely to be delivered in the second half of 2020. The building is located on the southeast corner of Patterson Avenue and Markham Street, spanning 37.3 acres. It will feature 40' clear height, 117 dock doors, 246 trailer stalls, 367 automobile parking spaces and four grade-level loading doors.

Nancy Shultz, senior vice president of Duke Realty's Southern California operations, noted, "Perris continues to be a preferred location in the Inland Empire East for companies looking for large blocks of modern distribution space because of its proximity to the I-215 and business friendly environment."

Duke Realty Signs 5 Leases in Chicago This September – Oct 9, 2019

Duke Realty announced that it has signed five leases aggregating 860,296 square feet in September for four of its properties.

The transactions include two full-building leases at the company's recently-delivered spec properties, a new lease and renewal that enabled another property to achieve full occupancy, as well as another new lease in another building.

Specifically, at Airport Logistics Center, Romeoville, RJW Logistics signed a lease to rent the entire 543,780-square-foot spec building that was unveiled in August. Moreover, Coda Resources leased 990 North Avenue in Glendale Heights — an 183,296-square-foot spec building completed in December 2018.

Additionally, at 375 W. South Frontage Road in Bolingbrook, Battery Systems has entered into a new lease for 17,850 square feet of space, while Corrosion Materials renewed its 17,850-square-foot lease at the property. Further, Duke Realty has bagged a new lease with Black Horse Carriers at 1835 West Jefferson, Naperville, for 97,520 square feet of area.

Per management, the company is witnessing decent demand for its properties in Chicago. Management noted that Duke Realty's Chicago-metro portfolio consists of modern, strategically-located properties that are appropriate to cater to companies' needs which are on the lookout for high-efficiency warehouse and distribution space in the city's high-demand market.

Dividend Update

Concurrent with its third-quarter earnings release, on Oct 30 Duke Realty announced quarterly cash dividend on common stock of 23.50 cents per share, denoting a 9.3% increase from the prior quarter payout. The dividend for the third quarter was paid on Nov 29 to shareholders on record as of Nov 14, 2019.

Valuation

Duke Realty's shares have been up 35.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 24.4% and 17.1%, over the past year.

The S&P 500 Index has been up 26.3% over the trailing 12-month period.

The stock is currently trading at 23.86X forward 12-month FFO, which compares to 17.88X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.06X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.08X and as low as 14.43X, with a 5-year median of 20.79X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$36 price target reflects 24.99X FFO.

The table below shows summary valuation data for DRE.

Valuation Multiples - DRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.86	17.88	14.92	19.06
	5-Year High	24.08	18.94	16.21	19.34
	5-Year Low	14.43	14.29	12.01	15.17
	5-Year Median	20.79	16.1	13.98	17.44
P/S F12M	Current	14.77	7.96	6.56	3.46
	5-Year High	14.9	7.96	6.61	3.46
	5-Year Low	7.03	5.9	5.2	2.54
	5-Year Median	11.97	6.88	6.04	3
P/B TTM	Current	2.52	2.71	2.83	4.41
	5-Year High	2.98	2.92	2.89	4.42
	5-Year Low	1.85	2.06	1.83	2.85
	5-Year Median	2.31	2.52	2.5	3.6

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 out of 253)



Top Peers

COREPOINT LODGE (CPLG)	Neutral
Douglas Emmett, Inc. (DEI)	Neutral
Diamondrock Hospitality Company (DRH)	Neutral
MGM Growth Properties LLC (MGP)	Neutral
Omega Healthcare Investors, Inc. (OHI)	Neutral
Uniti Group Inc. (UNIT)	Neutral
VICI Properties Inc. (VICI)	Neutral
W.P. Carey Inc. (WPC)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	DRE Neutral	X Industry	S&P 500	MGP Neutral	VICI Neutral	WPC Neutral
VGM Score	F	-	-	D	D	F
Market Cap	12.63 B	3.02 B	23.76 B	2.91 B	11.65 B	13.61 B
# of Analysts	7	4	13	3	4	2
Dividend Yield	2.73%	4.21%	1.78%	6.20%	4.71%	5.26%
Value Score	F	-	-	B	D	F
Cash/Price	0.01	0.03	0.04	0.05	0.17	0.02
EV/EBITDA	19.21	17.11	13.97	10.54	18.25	20.03
PEG Ratio	5.04	3.45	2.02	8.29	1.70	6.04
Price/Book (P/B)	2.52	1.63	3.38	0.44	1.44	1.95
Price/Cash Flow (P/CF)	17.65	14.64	13.70	6.16	17.55	16.73
P/E (F1)	22.61	15.18	18.83	13.43	15.18	15.74
Price/Sales (P/S)	12.46	6.73	2.68	2.89	13.19	11.39
Earnings Yield	4.42%	6.61%	5.30%	7.45%	6.61%	6.35%
Debt/Equity	0.55	0.87	0.72	0.81	0.51	0.87
Cash Flow (\$/share)	1.95	2.28	6.94	4.92	1.44	4.72
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	3.68%	3.16%	10.56%	10.28%	NA	3.95%
Proj. EPS Growth (F1/F0)	5.35%	3.74%	7.41%	2.11%	12.55%	1.21%
Curr. Cash Flow Growth	21.26%	13.22%	14.83%	11.92%	1,073.85%	28.14%
Hist. Cash Flow Growth (3-5 yrs)	7.88%	18.05%	9.00%	NA	NA	28.70%
Current Ratio	2.26	1.27	1.23	1.58	83.01	0.67
Debt/Capital	35.53%	46.64%	42.92%	44.81%	33.82%	46.59%
Net Margin	40.04%	13.74%	11.08%	8.24%	66.78%	30.89%
Return on Equity	8.49%	4.55%	17.10%	1.31%	7.84%	5.31%
Sales/Assets	0.13	0.13	0.55	0.09	0.07	0.08
Proj. Sales Growth (F1/F0)	4.45%	4.71%	4.20%	-1.89%	28.09%	6.05%
Momentum Score	D	-	-	F	B	F
Daily Price Chg	-0.87%	-1.33%	0.33%	-2.03%	-1.06%	-1.29%
1 Week Price Chg	0.29%	0.07%	0.13%	1.44%	-0.47%	1.38%
4 Week Price Chg	-2.44%	-0.78%	3.31%	1.61%	2.35%	-3.33%
12 Week Price Chg	3.12%	0.82%	9.70%	0.46%	9.63%	-13.34%
52 Week Price Chg	37.10%	18.23%	30.28%	13.38%	34.68%	21.70%
20 Day Average Volume	1,579,202	549,210	1,603,615	1,548,236	2,909,207	648,843
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-2.27%	1.30%	-0.30%
(F1) EPS Est 12 week change	1.14%	-0.40%	-0.57%	-3.73%	3.68%	-0.77%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.16%	1.65%	0.00%

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.

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