

Duke Realty Corp. (DRE)

\$36.75 (As of 02/06/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Duke Realty met expectations in terms of funds from operations (FFO) per share in fourth-quarter 2019, supported by same-property net operating income (NOI) growth. The company is strengthening its portfolio through buyouts and development, on a speculative and build-to-suit basis, in markets with stellar growth potential. In fact, recently, it unveiled a new 154,000-square-foot logistics property in the O'Hare submarket. Notably, the industrial real estate market is enjoying high 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. Its shares have outperformed the industry over the past year. However, rising supply and protectionist trade policies are key concerns. Also, near-term dilutive impact from disposals cannot be ignored.

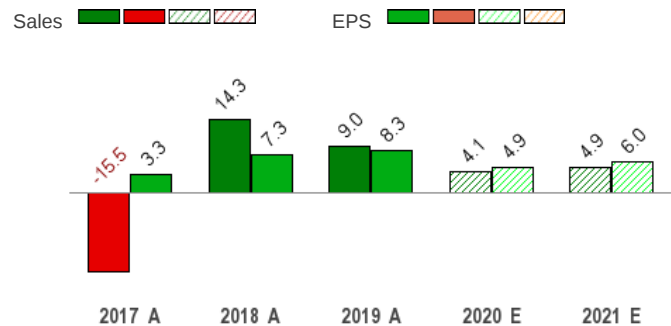
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.91 - \$29.12
20 Day Average Volume (sh)	2,231,054
Market Cap	\$13.5 B
YTD Price Change	6.0%
Beta	0.72
Dividend / Div Yld	\$0.94 / 2.6%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 33% (172 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	04/22/2020
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	228 E	230 E	232 E	235 E	935 E
2020	219 E	221 E	223 E	225 E	891 E
2019	210 A	213 A	215 A	217 A	856 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.41 E	\$0.41 E	\$0.42 E	\$1.60 E
2020	\$0.35 E	\$0.38 E	\$0.39 E	\$0.40 E	\$1.51 E
2019	\$0.33 A	\$0.36 A	\$0.37 A	\$0.38 A	\$1.44 A

*Quarterly figures may not add up to annual.

P/E TTM	25.5
P/E F1	24.3
PEG F1	5.4
P/S TTM	13.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

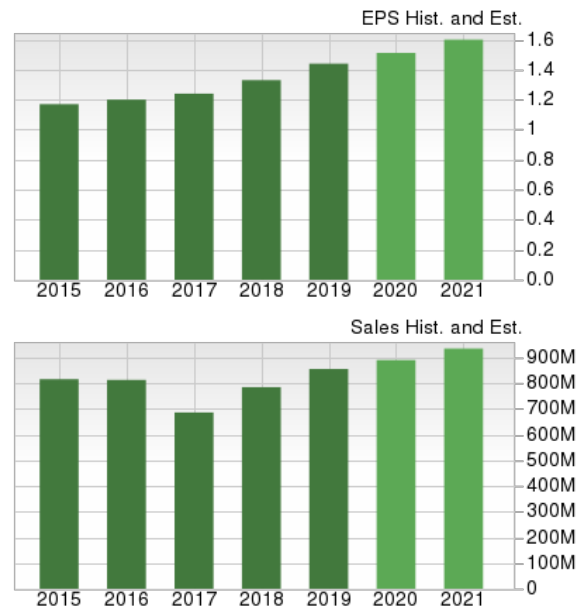
Headquartered in Indianapolis, IN, Duke Realty Corporation is a domestic pure-play industrial REIT in the United States, engaged in owning, managing and developing industrial properties across the nation. Its portfolio of industrial properties comprises about 155 million rentable square feet. These properties 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: Certain information will be updated once the company files its 10K.

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 solid build-to-suit prospects, the company's guidance for 2020 development starts is \$675-\$875 million. Also, acquisition of properties totaled \$217 million for 2019 and is expected in the band of \$100-\$300 million in 2020. Further, the company is making efforts to increase exposure in Tier 1 markets through disciplined capital-recycling efforts. In fact, 74% of the company's development pipeline is in coastal Tier 1 markets.
- ▲ 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. Further, it had no borrowings on its line of credit as of Dec 31, 2019.
- ▲ 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.

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 property dispositions aggregated \$494 million, while the company anticipates dispositions of non-strategic properties of \$300-\$500 million in 2020. 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 2019 consisted of 22 projects under construction, aggregating 8.9 million square feet of space under construction, at projected stabilized cost of \$1 billion. These projects are 56% 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.
- ▼ In the past year, shares of Duke Realty have outperformed the industry it belongs to. During this period, shares of the company have appreciated 22.5% compared with the industry's 12.4% growth. However, the trend in estimate revision of 2020 FFO per share does not indicate a favorable outlook for the company given the marginal downward revision over the past week. Therefore, given the above-mentioned concerns, the stock has limited upside potential.

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 Q4 FFO Meets, Revenues Beat Estimates

Duke Realty's fourth-quarter 2019 core FFO per share of 38 cents came in line with the Zacks Consensus Estimate. Moreover, the bottom line increased 8.6% from the year-ago quarter.

Results indicate overall improved operations and increased investments in building projects. Moreover, strong rent growth drove the company's same-property NOI.

Rental and related revenues of \$217.4 million increased 7.2% on a year-over-year basis. Also, the figure surpassed the Zacks Consensus Estimate of \$216.6 million.

In full-year 2019, core FFO per share came in at \$1.44, matching the Zacks Consensus Estimate. The figure improved 8.3% year over year. Moreover, rental and related revenues increased 9% to \$855.8 million.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.37%
EPS Surprise	0.00%
Quarterly EPS	0.38
Annual EPS (TTM)	1.44

Quarter in Detail

Duke Realty leased 8.3 million square feet of space during the December-ended quarter. Tenant retention was 69.2%. Moreover, the company registered same-property NOI cash basis growth of 3.7% year over year. In fact, Duke Realty reported overall cash and annualized net effective rent growth on new and renewal leases of 11.9% and 32.1%, respectively, in the quarter.

As of Dec 31, 2019, the company's total portfolio, including properties under development, was 94.3% leased, up 40 basis points (bps) from the prior-quarter end, and 50 bps from the prior-year end. In-service portfolio was 96.6% leased as of Dec 31, 2019, up from 96.2% leased on Sep 30, 2019 and from 96.3% on Dec 31, 2018.

Notably, during the fourth quarter, the company started five development projects aggregating 2.6 million square feet, with estimated costs of \$307 million. Further, during the quarter, the company acquired two projects worth \$68 million, which were fully leased. The company's building dispositions totaled \$110 million in the fourth quarter.

Duke Realty exited fourth-quarter 2019 with \$110.9 million of cash and cash equivalents, up from \$17.9 million as of Dec 31, 2018.

2020 Guidance

Duke Realty expects its core FFO per share to be in the range of \$1.48-\$1.54 for 2020. The projection is backed by the company's efficiency in driving strong rental rate growth as well as lease-up of its new developments at better rental rates.

The company estimates same-property NOI growth to be 3.6-4.4%. The guidance for acquisitions of properties is \$100-\$300 million. The projection for building dispositions is \$300-\$500 million.

Recent News

Duke Realty Announced 2019 Leasing and Development Activity at Raleigh – Jan 27, 2020

Duke Realty announced that in full-year 2019, the company inked leases for 444,851 square feet of space and started development of two new buildings in Raleigh. These leases consist of nine new leases, four renewals as well as a renewal and expansion lease. Healthy leasing volume indicate demand for premium logistics space in the Raleigh Durham area.

Moreover, the construction projects included a build-to-suit facility and a speculatively-developed building. Both projects are situated in Duke Realty's Greenfield North Business Park in Garner, NC, south of Raleigh.

Specifically, the spec building being developed is situated at 1201 North Greenfield Parkway in Greenfield North Business Park, a master-planned industrial campus. The 165,921-square-foot modern spec building is expected to be completed in July 2020.

Duke Realty Delivers New Logistics Property in O'Hare Submarket – Jan 27, 2020

Duke Realty recently unveiled a new logistics property, spanning 154,000 square feet, at 901 Chase Avenue in Elk Grove Village. The spec building is located in the sought-after O'Hare submarket and is available for immediate occupancy.

Notably, close proximity to the north cargo gate of the airport and connectivity to the I-90 and I-290/355 interchanges provides the modern facility ready highway access to the entire Chicago metro area. This strategic location of the property will likely enable the property to enjoy high demand.

Duke Realty to Develop Only LEED-Certified Building – Jan 17, 2020

Given its efforts to construct projects that are sustainable and environment friendly, Duke Realty announced that it will only develop LEED-certified buildings, commencing this year. Leadership in Energy and Environmental Design, commonly known as LEED, is a registered trademark of the U.S. Green Building Council.

LEED certification is an independent, third-party that verifies whether the developing project meets the highest performance standards. Also, it works to ensure that the strategies used during the development are aimed to save energy, reduce carbon dioxide emissions, improve water efficiency, enhance indoor air quality, effectively use resources and check environmental sensitivity.

Coming to Duke Realty, the announcement is all the more important because it is an eminent domestic-only, logistics property REIT in the United States. While many of the company's previously developed buildings are LEED certified, the move will further increase its emphasis on reducing waste in landfills and conserving resources, as it will have to adhere to the stringent criteria of LEED certification, going forward.

Per the company's management, the REIT has remained committed to environmental responsibility for a long time. Its eco-friendly efforts include incorporating sustainable practices in new buildings, modifying the existing properties for energy and water savings, and altering under-utilized sites and functionally obsolete or environmentally contaminated properties into the best possible version of the logistics facilities.

Duke Realty's Premier 370 Business Park Fully Leased– Jan 6, 2020

Duke Realty has inked a long-term lease with Distribution Management, Inc. for the entire Premier 370 Business Park 1001.

The warehouse spans 375,200 square feet and is located at 1001 Premier Parkway in St. Peters. The deal also marks the full occupancy of all five buildings, spanning 2.5 million square feet, in Premier 370 Business Park developed by Duke Realty. The strategic location of the property with convenient highway access, west of St. Louis off I-370 has likely attracted tenants.

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.

Dividend Update

Concurrent with its fourth-quarter 2019 earnings release, on Jan 29, 2020, Duke Realty announced quarterly cash dividend on common stock of 23.50 cents per share. The dividend for the fourth quarter will be paid on Feb 28 to shareholders on record as of Feb 14, 2020.

Valuation

Duke Realty's shares have been up 22.5% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 12.8% and 10.8% in the past year, respectively.

The S&P 500 index is up 22.1% in the past year.

The stock is currently trading at 23.72X forward 12-month FFO, which compares to 18.39X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.09X 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 20.83X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$39 price target reflects 25.17X FFO.

The table below shows summary valuation data for DRE.

Valuation Multiples - DRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.72	18.39	14.92	19.09
	5-Year High	24.08	18.85	16.21	19.34
	5-Year Low	14.43	14.29	12.01	15.18
	5-Year Median	20.83	16.1	14.07	17.46
P/S F12M	Current	14.81	8.33	6.53	3.54
	5-Year High	14.9	8.33	6.61	3.54
	5-Year Low	7.03	5.9	5.39	2.54
	5-Year Median	12.01	6.88	6.04	3
P/B TTM	Current	2.64	2.87	2.84	4.56
	5-Year High	2.98	2.88	2.89	4.56
	5-Year Low	1.85	2.06	1.83	2.85
	5-Year Median	2.31	2.52	2.51	3.62

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (172 out of 255)



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	-	-	C	F	F
Market Cap	13.51 B	2.98 B	24.40 B	3.80 B	12.52 B	14.64 B
# of Analysts	7	4	13	3	5	2
Dividend Yield	2.56%	3.97%	1.75%	5.63%	4.38%	4.88%
Value Score	F	-	-	C	D	D
Cash/Price	0.01	0.02	0.04	0.04	0.16	0.02
EV/EBITDA	20.51	17.86	14.17	11.72	19.39	21.09
PEG Ratio	5.43	3.44	2.05	3.81	1.70	4.23
Price/Book (P/B)	2.66	1.75	3.31	0.49	1.55	2.10
Price/Cash Flow (P/CF)	17.87	14.71	13.63	6.78	18.85	17.99
P/E (F1)	24.39	15.83	19.08	13.74	15.97	16.93
Price/Sales (P/S)	13.87	7.19	2.67	3.77	14.17	12.25
Earnings Yield	4.11%	6.31%	5.24%	7.28%	6.26%	5.91%
Debt/Equity	0.57	0.89	0.71	0.81	0.51	0.87
Cash Flow (\$/share)	2.06	2.28	6.89	4.92	1.44	4.72
Growth Score	D	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	4.24%	3.16%	10.80%	10.28%	NA	3.95%
Proj. EPS Growth (F1/F0)	4.96%	3.77%	7.23%	4.74%	18.06%	1.21%
Curr. Cash Flow Growth	8.29%	12.14%	9.51%	11.92%	1,073.85%	28.14%
Hist. Cash Flow Growth (3-5 yrs)	4.03%	17.47%	8.55%	NA	NA	28.70%
Current Ratio	2.61	1.24	1.20	1.58	83.01	0.67
Debt/Capital	36.46%	46.90%	42.90%	44.81%	33.82%	46.59%
Net Margin	44.05%	13.74%	11.76%	8.24%	66.78%	30.89%
Return on Equity	8.80%	4.52%	16.98%	1.31%	7.84%	5.31%
Sales/Assets	0.12	0.13	0.54	0.09	0.07	0.08
Proj. Sales Growth (F1/F0)	4.07%	4.87%	4.15%	1.60%	30.21%	6.74%
Momentum Score	F	-	-	B	D	D
Daily Price Chg	0.16%	0.15%	-0.11%	0.97%	0.70%	0.79%
1 Week Price Chg	0.58%	-1.30%	-2.60%	-0.50%	0.56%	-0.26%
4 Week Price Chg	6.74%	3.91%	1.51%	8.38%	7.10%	5.16%
12 Week Price Chg	5.03%	3.14%	5.63%	2.08%	10.41%	1.14%
52 Week Price Chg	22.34%	8.95%	17.01%	7.78%	26.51%	13.11%
20 Day Average Volume	2,231,054	458,575	1,961,054	1,229,364	3,474,041	468,565
(F1) EPS Est 1 week change	-0.09%	0.00%	0.00%	3.40%	0.59%	-1.93%
(F1) EPS Est 4 week change	-0.38%	0.00%	-0.00%	1.82%	1.02%	-1.93%
(F1) EPS Est 12 week change	0.38%	-0.16%	-0.16%	0.28%	4.37%	-2.23%
(Q1) EPS Est Mthly Chg	-1.17%	0.00%	0.00%	-9.52%	-5.49%	0.00%

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	F
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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