

Duke Realty Corp. (DRE)

\$37.89 (As of 08/14/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: A

Summary

Duke Realty's industrial properties have been witnessing solid demand. The company recently signed a lease for its logistic facilities in the Nashville metro area. In the first two quarters of 2020, the company signed more than 1 million square feet in leases in the Cincinnati metro area. Also, it witnessed healthy rent collections. Apart from the e-commerce boom, supply-chain disruption caused by the pandemic will likely spur demand for incremental inventory storage in the long run. Further, given the company's robust balance-sheet and solid capacity to offer bulk distribution properties, it is well poised to capitalize on this demand. Also, its shares have outperformed its industry over the past year. Yet, the pandemic's adverse impact on economy will likely affect demand for space in near term. A development boom is concerning.

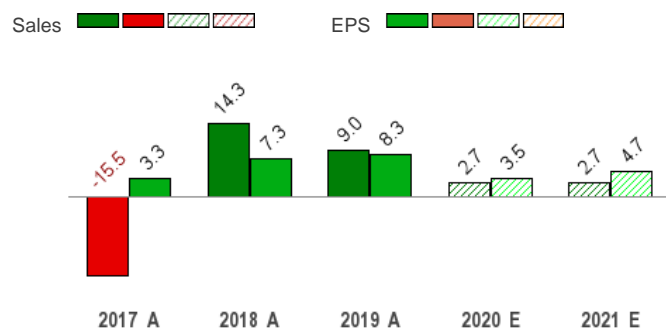
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.84 - \$25.19
20 Day Average Volume (sh)	1,988,634
Market Cap	\$14.0 B
YTD Price Change	9.3%
Beta	0.67
Dividend / Div Yld	\$0.94 / 2.5%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 16% (211 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	3.6%
Expected Report Date	NA
Earnings ESP	0.7%
P/E TTM	26.0
P/E F1	25.4
PEG F1	5.7
P/S TTM	15.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					903 E
2020	219 A	226 A	220 E	219 E	879 E
2019	210 A	213 A	215 A	217 A	856 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.40 E	\$0.41 E	\$0.42 E	\$1.56 E
2020	\$0.33 A	\$0.38 A	\$0.39 E	\$0.39 E	\$1.49 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

Overview

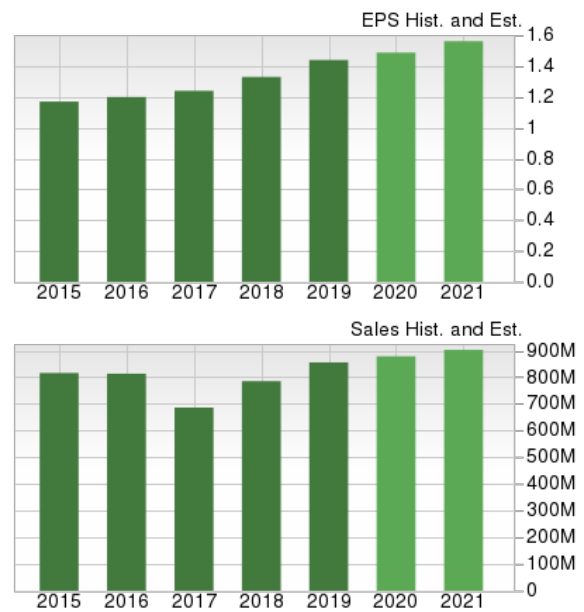
Headquartered in Indianapolis, IN, Duke Realty Corporation is a domestic pure-play industrial REIT in the United States, engaged in owning, managing and developing industrial properties across the nation. Its portfolio of industrial properties comprises about 156 million rentable square feet. These properties are located in 20 key logistic markets.

Currently, Duke Realty enjoys ownership interests in 518 logistics properties encompassing 156.1 million square feet in 20 major logistics markets. As of Jun 30, 2020, the company's total portfolio, including properties under development, was 95.3% leased, up 100 basis points (bps) from the previous-quarter end, and up 190 bps from the prior-year quarter end.

Increase in total portfolio occupancy reflects leasing of speculative space in both in-service and under-development portfolios. In-service portfolio was 96.7% leased as of Jun 30, 2020, up from 96.5% as of Mar 31, 2020 and 95.4% as of Jun 30, 2019.

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 build-to-suit basis, in high-barrier markets with solid growth potential. In light of the economic uncertainties, the company has suspended new speculative development starts. However, it noted that later in the year it might potentially resume modest speculative development activity in a few markets.

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. The company did not commence any new developments during the April-June quarter, as it made a temporary halt on speculative developments. Nonetheless, the company is working with a list of prospective tenants and anticipates more build-to-suit developments to be commenced in the second half of this year. Moreover, the company's guidance for acquisitions of properties is \$50-\$250 million, compared to the previous range of up to \$100 million. Further, the company is making efforts to increase exposure in Tier 1 markets through disciplined capital-recycling efforts. In fact, majority 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. Moreover, the supply-chain disruption caused by the coronavirus pandemic is likely to accelerate consumer adoption of e-commerce and increase demand for incremental inventory storage. Hence, with a decent portion of the company's tenant base being e-commerce oriented, Duke Realty is well positioned to capture growth opportunities from the e-commerce boom, even amid a slowing economy.
- ▲ Duke Realty enjoys a strong balance sheet, ample liquidity and easy access to capital. Taking advantage of a favorable pricing, in June, the company issued \$350 million of 10-year unsecured notes at a coupon rate of 1.75% and an all-in yield of 1.85%. A part of the proceeds of these notes were used to extinguish, through an any-and-all tender offer, \$216 million of its \$300 million 3.875% unsecured notes that had a scheduled maturity in October 2022. Such efforts helped the company lower its overall average borrowing rate and near term debt maturities. The company also issued 2 million shares at an average price of \$36.35 per share under its ATM program, reaping \$71 million of net proceeds. Moreover, with just \$281 million of estimated remaining costs to complete its development pipeline, the company remains well poised for future growth through development and selective acquisitions. Finally, the company enjoys investment-grade credit rating of BBB+ and Baa1 from Standard & Poor's and Moody's, respectively.
- ▲ 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. The company has maintained the same amount so far. 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, during the fourth-quarter of 2017, the company paid 85 cents as special dividends. Given its financial strength and lower dividend payout (as compared to its industry), the company's dividend distribution is expected to be sustainable.
- ▲ Shares of Duke Realty have gained 12.7% compared with the industry's decline of 8%. The company reported a better-than-expected performance with respect to FFO per share in the second quarter. Further, the company revised its 2020 core FFO per share outlook to \$1.48-\$1.54 from the prior estimate of \$1.41-\$1.51. This is backed by a solid operational performance, and particularly strong rent collections so far. Moreover, the trend in estimate revision of 2020 FFO per share indicates a favorable outlook for the company, given the 3.5% upward revision over the past month. Therefore, given the progress on fundamentals and upward estimate revisions, 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 hence growth in rent is expected to slow down in the days to come. Moreover, industrial real estate fundamentals though seems more resilient than other asset categories, but not immune. In the second half of the year, there are concerns associated with the timing and nature of economies reopening. As such, the pandemic's adverse impact on the economy will likely affect demand for space in the near term.
- ▼ Furthermore, with the asset category being an attractive in the current challenging times, there is a development boom in some markets. This high supply is likely to fuel competition, curb pricing power and turn on more concessions. Though rent collection trends are decent so far, rent relief and deferrals will likely remain an issue, specifically, for the company's smaller tenants that are adversely impacted by the virus outbreak.
- ▼ 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. Particularly, the company finished the quarter with a 6.7-million-square-foot development pipeline, aggregating \$846 million in expected costs, which was 65% leased. Although, in recent years, the company enhanced the amount of speculative development in its portfolio, in light of the economic uncertainty, the company has suspended new speculative development starts. However, the company noted that later in the year it might potentially resume modest speculative development activity in a few markets.

Slowdown in the economy amid the coronavirus pandemic will likely affect the demand for industrial real estate in the near term. Moreover, a development boom in some markets is concerning.

Last Earnings Report

Duke Realty Q2 FFO & Revenues Top Estimates, View Up

Duke Realty's second-quarter 2020 core FFO per share of 38 cents surpassed the Zacks Consensus Estimate of 37 cents. The figure also increased from the year-ago tally of 36 cents.

Results reflect rent growth on new and renewal leases, higher in-service occupancy and leasing of new developments.

The company noted that despite the uncertain economic conditions, it has a more optimistic outlook for current-year earnings compared with the guidance issued in April. This positive outlook is backed by operational performance, and particularly strong rent collections so far. Notably, the company has collected or has executed deferral agreements for 99.9% of second-quarter rents and 99.9% of July rents.

Rental and related revenues of \$226.4 million increased 6.2% on a year-over-year basis. Also, the figure surpassed the Zacks Consensus Estimate of \$221.3 million.

Quarter in Detail

Duke Realty leased 7.6 million square feet of space during the June-end quarter, including 1.4 million square feet of short-term leases. Tenant retention was 75.1% for the second quarter and 95.9% after considering immediate backfills.

Moreover, the company registered same-property NOI growth of 5% year over year. This uptick was backed by increased occupancy and rental rate growth as well as the expiration of free rent periods. Duke Realty reported overall cash and annualized net effective rent growth on new and renewal leases of 10.7% and 26.6%, respectively, during the quarter.

As of Jun 30, 2020, the company's total portfolio, including properties under development, was 95.3% leased, up 100 basis points (bps) from the previous-quarter end, and up 190 bps from the prior-year quarter end.

Increase in total portfolio occupancy reflects leasing of speculative space in both in-service and under-development portfolios. In-service portfolio was 96.7% leased as of Jun 30, 2020, up from 96.5% as of Mar 31, 2020 and 95.4% as of Jun 30, 2019.

Duke Realty exited the second quarter with \$29.9 million of cash and cash equivalents, down from \$110.9 million as of Dec 31, 2019.

Portfolio Activity

During the quarter, the company placed eight new consolidated projects, and one expansion to an existing project, aggregating 3.2 million square feet. These projects were 82% leased in total.

However, the company did not commence any new developments during the April-June quarter, as it made a temporary halt on speculative developments. Nonetheless, the company is working with a list of prospective tenants and anticipates more build-to-suit developments to be commenced in the second half of this year.

2020 Guidance

Duke Realty revised the 2020 core FFO per share outlook to \$1.48-\$1.54 from the prior estimate of \$1.41-\$1.51.

The company estimates same-property NOI growth of 3.5-4.5% compared with the prior guidance of 1.75-3.25%. It has lowered its bad debt expense estimate and included improved leasing assumption compared with the April outlook. Moreover, the revised guidance for 2020 development starts is \$350-\$550 million compared with the prior range of \$275-\$425 million.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	2.29%
EPS Surprise	2.70%
Quarterly EPS	0.38
Annual EPS (TTM)	1.46

Recent News

Duke Realty Sees Solid Demand for Properties in Cincinnati – Aug 10, 2020

Duke Realty has been witnessing solid demand for the company's industrial properties in the Cincinnati metro area from both its existing tenants and new ones. The company managed to sign more than 1 million square feet in leases in the first two quarters of 2020, comprising both new leases and renewals.

Among the leases signed during the first half of the current year in the Cincinnati metro area was a 252,000-square-foot new lease with Crescent at World Park 5232, a 201,600-square-foot lease at Skyport 2350, as well as 326,400 square feet of area in two buildings – Skyport 2250 and Skyport 2350 – leased by Borderless. Also, there was an 118,629-square-foot renewal by Heidelberg at Skyport 2245 and a 150,811-square-foot new lease with Latitude 36 at Fairfield Logistics Center 7940.

Duke Realty Signs Lease With Optoro, Facility 100% Occupied – Aug 6, 2020

Duke Realty has been witnessing solid demand for its logistic facilities in the Nashville metro area. The company clinched a lease deal for 207,518 square feet of space in Park 840 West 14840 in Lebanon, TN, with the returns technology company Optoro, Inc.

With the latest lease, this 653,460-square-foot logistics building, which is just off I-840 at Highway 109, has achieved full occupancy. It highlights the elevated demand for modern Class A facilities. With the property being positioned east of downtown Nashville and within minutes of I-40, I-24 and I-65, it serves as an efficient and convenient one for making distribution throughout the Southern United States as well as the rest of the nation.

Dividend Update

Concurrent with the second-quarter earnings release on Jul 29, 2020, Duke Realty announced a quarterly cash dividend on common stock of 23.50 cents per share. The dividend for the second quarter will be paid out on Aug 31 to shareholders on record as of Aug 14, 2020.

Valuation

Duke Realty's shares have been up 12.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 8% and 6.5% over the past year.

The S&P 500 Index has been up 15.5% over the trailing 12-month period.

The stock is currently trading at 24.67X forward 12-month FFO, which compares to 19.25X for the Zacks sub-industry, 16.84X for the Zacks sector and 22.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 27.34X and as low as 14.43X, with a 5-year median of 21.34X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 26.04X FFO.

The table below shows summary valuation data for DRE.

Valuation Multiples - DRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.67	19.25	16.84	22.87
	5-Year High	27.34	19.28	16.84	22.87
	5-Year Low	14.43	14.32	11.59	15.25
	5-Year Median	21.34	16.11	14.26	17.58
P/S F12M	Current	15.71	8.34	6.22	3.7
	5-Year High	16.5	8.37	6.66	3.7
	5-Year Low	7.03	5.97	4.96	2.53
	5-Year Median	12.35	7	6.06	3.05
P/B TTM	Current	2.78	2.23	2.47	4.7
	5-Year High	2.98	3.03	2.91	4.71
	5-Year Low	1.85	1.81	1.72	2.83
	5-Year Median	2.35	2.51	2.53	3.74

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (211 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Americold Realty Trust (COLD)	Neutral	3
EastGroup Properties, Inc. (EGP)	Neutral	3
First Industrial Realty Trust, Inc. (FR)	Neutral	3
Prologis, Inc. (PLD)	Neutral	3
PS Business Parks, Inc. (PSB)	Neutral	3
Rexford Industrial Realty, Inc. (REXR)	Neutral	3
Stag Industrial, Inc. (STAG)	Neutral	3
Terreno Realty Corporation (TRNO)	Neutral	2

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	DRE	X Industry	S&P 500	EGP	FR	PLD
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	D	-	-	C	D	D
Market Cap	14.04 B	2.05 B	23.68 B	5.24 B	5.35 B	75.59 B
# of Analysts	5	4	14	7	7	9
Dividend Yield	2.48%	3.83%	1.68%	2.25%	2.38%	2.27%
Value Score	F	-	-	D	D	F
Cash/Price	0.00	0.06	0.07	0.00	0.02	0.01
EV/EBITDA	19.77	14.24	13.36	24.65	16.72	29.52
PEG Ratio	5.66	4.16	2.99	5.14	NA	3.57
Price/Book (P/B)	2.78	1.33	3.22	4.31	2.98	2.06
Price/Cash Flow (P/CF)	18.27	10.89	12.82	22.90	14.47	24.56
P/E (F1)	25.43	15.45	22.06	25.35	23.38	27.50
Price/Sales (P/S)	14.99	4.89	2.51	15.02	12.25	18.84
Earnings Yield	3.93%	5.89%	4.30%	3.94%	4.28%	3.64%
Debt/Equity	0.61	0.92	0.77	1.01	0.91	0.43
Cash Flow (\$/share)	2.07	2.05	6.94	5.82	2.91	4.17
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	5.30%	0.73%	10.41%	7.85%	5.73%	10.06%
Proj. EPS Growth (F1/F0)	3.33%	-2.05%	-6.32%	5.51%	3.45%	12.39%
Curr. Cash Flow Growth	9.22%	3.36%	5.20%	25.62%	28.05%	3.51%
Hist. Cash Flow Growth (3-5 yrs)	4.21%	12.74%	8.55%	13.87%	19.83%	15.92%
Current Ratio	1.16	1.62	1.33	0.00	1.39	0.48
Debt/Capital	37.81%	48.09%	44.59%	50.32%	47.55%	29.89%
Net Margin	39.78%	10.49%	10.13%	34.10%	57.56%	43.27%
Return on Equity	7.38%	3.32%	14.51%	10.07%	14.15%	5.55%
Sales/Assets	0.11	0.13	0.51	0.14	0.12	0.08
Proj. Sales Growth (F1/F0)	2.66%	0.00%	-1.43%	8.38%	2.43%	32.41%
Momentum Score	A	-	-	A	C	A
Daily Price Chg	-2.30%	-0.03%	0.12%	-1.34%	-1.15%	-0.31%
1 Week Price Chg	-1.09%	2.69%	2.30%	3.27%	-1.53%	-0.33%
4 Week Price Chg	6.70%	4.85%	4.41%	14.27%	9.58%	11.10%
12 Week Price Chg	14.68%	10.20%	13.66%	24.08%	16.15%	18.43%
52 Week Price Chg	15.13%	-19.03%	5.80%	8.43%	11.41%	25.99%
20 Day Average Volume	1,988,634	642,525	1,984,154	226,383	1,160,846	2,854,889
(F1) EPS Est 1 week change	2.53%	0.00%	0.00%	0.66%	0.00%	0.00%
(F1) EPS Est 4 week change	3.60%	0.00%	2.08%	2.88%	0.98%	4.07%
(F1) EPS Est 12 week change	3.72%	-0.53%	2.66%	2.75%	1.19%	3.94%
(Q1) EPS Est Mthly Chg	4.73%	-0.05%	0.94%	1.93%	7.24%	2.03%

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	A
VGM Score	D

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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