

Liberty Property Trust (LPT)

\$64.54 (As of 01/23/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: A

Summary

Shares of Liberty Property have outperformed its industry over the past year. The company's solid property base is well positioned to benefit from the favorable fundamentals in the industrial markets. Value-enhancing development opportunities offer scope to ride high. Further, in October, the company agreed to be acquired by Prologis, Inc. in an all-stock transaction, valued at roughly \$12.6 billion. The transaction entails the purchase of a logistics operating portfolio spanning 107 million square feet of space that overlaps in 87% of key markets. Although Liberty Property is enhancing its portfolio mix through continued divestitures of office properties, this is likely to have a dilutive impact on its near-term earnings. Further, rising supply of industrial real estate and any protectionist trade policies are concerns for the company.

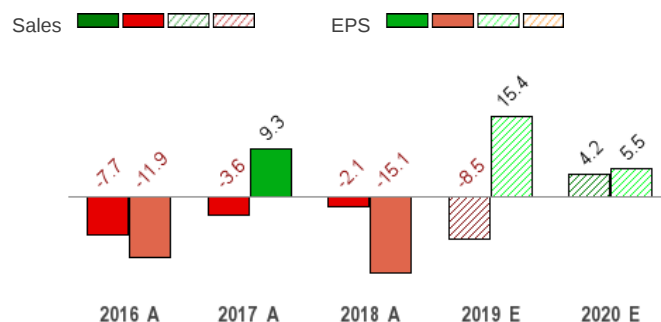
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$65.05 - \$45.09
20 Day Average Volume (sh)	1,061,394
Market Cap	\$10.2 B
YTD Price Change	7.5%
Beta	0.77
Dividend / Div Yld	\$1.64 / 2.5%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 32% (173 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.5%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	23.6
P/E F1	24.1
PEG F1	4.0
P/S TTM	15.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	166 E	168 E	169 E	171 E	672 E
2019	158 A	161 A	163 A	166 E	645 E
2018	190 A	177 A	172 A	180 A	705 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.63 E	\$0.68 E	\$0.68 E	\$0.69 E	\$2.68 E
2019	\$0.62 A	\$0.68 A	\$0.69 A	\$0.60 E	\$2.54 E
2018	\$0.65 A	\$0.69 A	\$0.69 A	\$0.74 A	\$2.20 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 01/23/2020. The reports text is as of 01/24/2020.

Overview

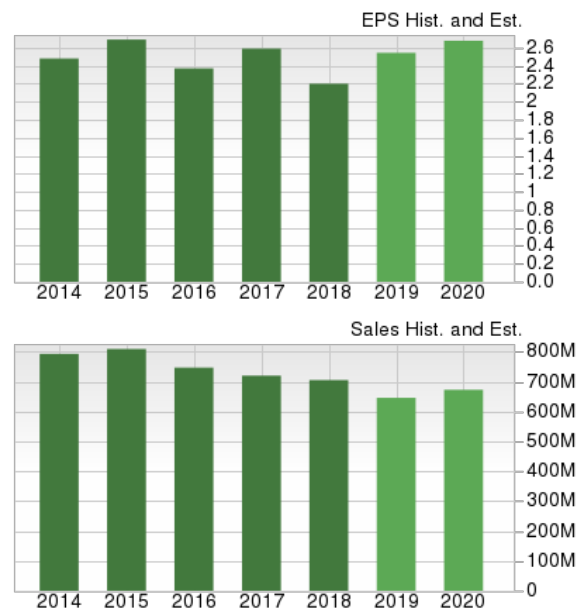
Real estate investment trust (REIT) Liberty Property Trust owns and operates industrial properties across the nation and office properties in specific markets. The company also owns certain assets in the U.K. Its principal executive offices are located in Malvern, PA.

Liberty Property's total portfolio of wholly-owned industrial properties spans across 103 million square feet of space. The properties offer superior office and industrial real estate space to 1,200 tenants. However, the company is now focusing its efforts and capital toward industrial business only and as a result, intends to divest its remaining office properties (other than its headquarters) over the next few years.

In fact, the fourth quarter of 2018 was a notable period from a strategic perspective and the company accomplished the sale of bulk of its sub-urban office properties, streamlined the business by expanding and recapitalizing its U.K. industrial platform, as well as resorted to monetization of the rights to a U.K. mixed-use land holding for a substantial gain. The company continued to execute on its strategic disposition program in first-half 2019. Further, during third-quarter 2019, it sold six properties for \$197.3 million.

On Oct 27, 2019, Liberty Property announced that it has entered into a definitive merger agreement with Prologis, Inc. to be acquired by the latter in an all-stock transaction, valued at roughly \$12.6 billion, including the assumption of debt. The deal is anticipated to close in first-quarter 2020 and is expected to create immediate cost synergies of nearly \$120 million.

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:

▲ Fundamentals of the industrial real estate market remain solid, backed by growing demand for industrial properties amid stable economy and job-market improvements, which has led to strong rent growth, high occupancy and development opportunities. Therefore, given its premium quality industrial portfolio located in upscale locations, pro-business environment and continued e-commerce demand, Liberty Property is poised to gain. Speaking of its industrial operating performance, as of Sep 30, 2019, occupancy at the company's in-service operating portfolio, spanning 107 million square feet, remained healthy at 94.6%. Rents increased 5.4% on a cash basis (16% GAAP) on retention and replacement leases commenced during the third quarter.

The company's portfolio of superior industrial properties, divestiture of non-core assets, strong balance sheet and rising demand for quality industrial space, primarily drive growth.

▲ Liberty Property has been aiming at divesting its non-core properties and using the dry powder for gaining the preferred properties across the United States. Specifically, the company is targeting for growth of its industrial platform in top tier markets and financing that through the disposition of office assets. In first-half 2019, the company purchased six properties for an aggregate purchase price of \$154 million. Further, during the third quarter, it acquired one industrial property, aggregating 203,000 square feet, for \$55.5 million. These measures are likely to help the company achieve a favorable portfolio mix.

▲ Liberty Property's strong balance sheet, superior access to capital, strategic asset sales activity and ample liquidity lends it a financial flexibility to invest in its growth endeavors, meet operating and other expenses, reward shareholders, and make interest and debt payments. The company has a \$900-million unsecured credit facility, which includes a revolving credit facility for borrowings up to \$800 million and a delayed draw term loan facility, totaling up to \$100 million. It matures in October 2021 and the company has options to extend the maturity date for up to one additional year.

▲ Shares of Liberty Property have gained 41.5% over the past year, outperforming the industry's rally of 17.4%. In addition, the trend in estimate revisions of 2020 FFO per share indicates a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share has been revised marginally upward over the past week. Therefore, given the improvement in fundamentals and positive estimate revisions, the stock has decent upside potential.

Reasons To Sell:

- ▼ The company is shifting its focus towards industrial properties due to favorable demand supply conditions. As part of that, the company is enhancing its portfolio mix through continued divestitures of office properties. The company has realized sale proceeds of \$188.2 million from the disposition of eight properties in first-half 2019. Continuing its dispositions, during third-quarter 2019, Liberty Property sold six properties aggregating 763,000 square feet of space for \$197.3 million. Moreover, subsequent to the quarter end, it sold another office property and 17 acres of adjacent land for \$28.6 million. While such efforts are a strategic fit for long-term growth, the near-term dilution impact of such moves on earnings is unavoidable.
- ▼ The recovery in the industrial market has continued for long and chances of any striking decrease in availability rates are less. Hence, any robust improvement in the performance of Liberty Property is unlikely. Also, supply is likely to increase in the near term and somewhat affect this real estate category's growth tempo. Additionally, any protectionist trade policies will have an adverse impact on economic growth, as well as the company's business.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.

Rising number of new facilities and protectionist trade policies are headwinds for Liberty Property's. Also, adverse near-term impact on earnings from continued divestitures is a growth hurdle.

Last Earnings Report

Liberty Property Beats Q3 FFO & Revenue Estimates

Liberty Property reported third-quarter 2019 NAREIT FFO per share of 69 cents, flat year over year. This included gains on sales of non-depreciable assets that were partially offset by expensed pursuit costs, amounting 4 cents per share. The reported tally surpassed the Zacks Consensus Estimate of 63 cents.

Results indicate decent leasing activity and encouraging rent growth.

Further, third-quarter revenues were up 1.1% from the prior-year quarter to around \$163.2 million. The top-line figure also outpaced the Zacks Consensus Estimate of \$161.2 million.

Quarter Ending 09/2019

Report Date	Oct 27, 2019
Sales Surprise	0.83%
EPS Surprise	9.52%
Quarterly EPS	0.69
Annual EPS (TTM)	2.73

Quarter in Detail

During the reported quarter, Liberty Property accomplished lease deals for 6.2 million square feet of space for its industrial portfolio. As of Sep 30, 2019, occupancy in the company's in-service operating portfolio, spanning 107 million square feet, shrunk 60 basis points sequentially to 94.6%. Rents increased 5.4% on a cash basis (16% GAAP) on retention and replacement leases commenced during the period under consideration.

Property level operating income for same-store properties inched up 0.1% on a cash basis (0.3% GAAP) year over year.

Portfolio Activity

During the September-end quarter, Liberty Property acquired one industrial property, aggregating 203,000 square feet, for \$55.5 million. At the same time, the company sold six operating properties, totaling 763,000 square feet, for \$197.3 million.

The company brought into service six industrial properties, comprising 3 million square feet of space for a total investment of \$193.6 million. These properties were 59.5% occupied as of the end of the third quarter.

Balance-Sheet Position

Liberty Property exited the third quarter with cash and cash equivalents of around \$514.9 million, up from the \$84.9 million recorded at the end of December 2018.

Recent News

Liberty Property's Eagle Hill in High Point Now 100% Occupied - Nov 20, 2019

Leasing momentum continues at Piedmont Triad as Liberty Property Trust inks two deals at Eagle Hill in High Point, making the park fully occupied.

The company has signed a new lease and an expansion lease deal at the park. In fact, On Services-AV Specialists, Inc is set to occupy 24,000 square feet of space at 4183 Eagle Hill Drive this month.

Further, Inmark, LLC has expanded its lease for an additional 24,000 square feet of space at the same property. With this, the company will occupy a total of 53,578 square feet of space.

At the Eagle Hill park, Liberty owns and manages 446,000 square feet of space across four properties. Further, the property, 4183 Eagle Hill Drive, at which the company has signed the leases, spans 96,000 square feet. Its features include 28-foot clear height, an ESFR sprinkler system and rear loading docks.

Management believes Eagle Hill continues to enjoy high demand from companies on the lookout for easy inter-state access, as the property provides convenient connectivity to interstates 40, 85 and 73 as well as Highway 68. In fact, a solid labor pool, transportation ease and modern industrial facilities are spurring demand for space in the Triad.

Liberty Property to be Acquired by Prologis in a \$12.6B Deal – Oct 27, 2019

Liberty Property announced that it has entered into a definitive merger agreement with Prologis, Inc. to be acquired by the latter in an all-stock transaction, valued at roughly \$12.6 billion, including the assumption of debt. The transaction has been approved by the company's board of trustees.

The deal is anticipated to close in first-quarter 2020. Per the acquisition agreement, Liberty Property's shareholders will receive 0.675x of a Prologis share for per Liberty Property share owned.

This deal is expected to create immediate cost synergies of nearly \$120 million due to lower interest expense, cost savings from corporate general and administrative expenses, operating leverage and lease adjustments.

It consists of a logistics operating portfolio spanning 107 million square feet of space that overlaps in 87% of key markets. Furthermore, through this buyout, Prologis will acquire 5.1 million square feet of logistics development in progress. The transaction is a strategic fit as it strengthens Prologis' presence in target regions such as Chicago, Lehigh Valley, New Jersey Houston, Central PA, and Southern California.

Liberty Property Breaks Ground on 2 Industrial Properties - Oct 2, 2019

Liberty Property Trust broke ground on two buildings at Liberty Riverside Center — the company's new industrial park located in Southwest Phoenix's industrial core. The properties, situated inside new Loop 202, will span across 22.5 acres.

The project is expected to complete in early 2020. Notably, the first building will offer 123,638 square feet of Class A industrial space, at 2323 S. 48th Avenue. With 36-foot clear height, 38 dock high doors, appropriate column spacing and 124 designated auto-parking stalls, this property will be appropriate to cater e-commerce firms.

Further, the second building, adjacent to 2200 S. 48th Avenue, will offer 223,917 square feet of industrial space. Building features include 36-foot ceiling heights, 41 dock high doors, 28 trailer parking space and 48' x 54' column spacing.

Amid e-commerce boom and the rising need for last-mile delivery options, demand for well-situated industrial space in densely-populated market has rapidly picked up pace. Hence, Liberty Property has undertaken dedicated measures to enhance its industrial portfolio.

As for Liberty Riverside Center, the in-fill construction and strategic location of the property will likely enable it to command premium rent and enjoy rapid leasing.

In fact, per management, industrial leasing opportunities in the new 202 Loop are high owing to limited supply of in-fill land sites. Additionally, the location of Liberty Riverside Center within the Riverside tax district is favorable.

Management noted that the A-1 property zoning enables varied uses of the industrial space and hence, the buildings have been planned to offer built-to-suit space configurations.

Dividend Update

On Dec 9, Liberty Property announced fourth-quarter 2019 cash dividend of 41 cents per share. The dividend was paid out on Jan 15 to stockholders on record as of Jan 2, 2020.

Valuation

Liberty Property's shares have been up 41.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 17.4% and 10.9%, over the past year.

The S&P 500 Index has been up 23.8% over the trailing 12-month period.

The stock is currently trading at 24.11X forward 12-month FFO, which compares to 18.33X for the Zacks sub-industry, 14.67X for the Zacks sector and 19.13X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.11X and as low as 11.04X, with a 5-year median of 16.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$68 price target reflects 25.40X FFO per share.

The table below shows summary valuation data for LPT.

Valuation Multiples - LPT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.11	18.33	14.67	19.13
	5-Year High	24.11	18.94	16.21	19.34
	5-Year Low	11.04	14.29	12.01	15.17
	5-Year Median	16.12	16.11	13.98	17.44
P/S F12M	Current	15.09	8.29	6.53	3.56
	5-Year High	15.09	8.29	6.61	3.56
	5-Year Low	5.21	5.9	5.2	2.54
	5-Year Median	8.56	6.88	6.04	3
P/B TTM	Current	2.6	2.86	2.84	4.54
	5-Year High	2.6	2.92	2.89	4.55
	5-Year Low	1.33	2.06	1.83	2.85
	5-Year Median	1.96	2.52	2.51	3.61

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 255)



Top Peers

Duke Realty Corporation (DRE)	Neutral
EastGroup Properties, Inc. (EGP)	Neutral
First Industrial Realty Trust, Inc. (FR)	Neutral
Prologis, Inc. (PLD)	Neutral
PS Business Parks, Inc. (PSB)	Neutral
Rexford Industrial Realty, Inc. (REXR)	Neutral
Stag Industrial, Inc. (STAG)	Neutral
Terreno Realty Corporation (TRNO)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	LPT Neutral	X Industry	S&P 500	DRE Neutral	FR Neutral	PLD Neutral
VGM Score	F	-	-	F	D	D
Market Cap	10.17 B	2.98 B	24.46 B	13.22 B	5.52 B	60.46 B
# of Analysts	3	4	13	7	8	9
Dividend Yield	2.54%	4.00%	1.75%	2.61%	2.11%	2.22%
Value Score	F	-	-	F	F	F
Cash/Price	0.05	0.02	0.04	0.01	0.01	0.02
EV/EBITDA	37.35	17.87	14.11	19.95	20.07	23.74
PEG Ratio	4.05	3.61	2.04	5.28	3.72	4.23
Price/Book (P/B)	2.45	1.71	3.40	2.63	3.20	2.32
Price/Cash Flow (P/CF)	28.67	14.84	13.66	18.46	19.07	22.29
P/E (F1)	24.29	15.79	19.10	23.73	23.81	25.93
Price/Sales (P/S)	15.35	7.10	2.67	13.03	13.14	18.15
Earnings Yield	4.15%	6.31%	5.23%	4.23%	4.21%	3.86%
Debt/Equity	0.78	0.88	0.72	0.55	0.82	0.46
Cash Flow (\$/share)	2.25	2.27	6.94	1.95	2.28	4.29
Growth Score	F	-	-	D	C	D
Hist. EPS Growth (3-5 yrs)	1.58%	3.10%	10.60%	3.68%	6.78%	11.46%
Proj. EPS Growth (F1/F0)	5.30%	4.05%	7.59%	5.26%	5.33%	11.48%
Curr. Cash Flow Growth	-26.23%	13.18%	13.90%	21.26%	-12.11%	6.71%
Hist. Cash Flow Growth (3-5 yrs)	2.06%	18.05%	9.00%	7.88%	16.76%	30.33%
Current Ratio	7.33	1.27	1.22	2.26	0.80	0.53
Debt/Capital	43.89%	46.68%	42.99%	35.53%	44.97%	31.35%
Net Margin	64.23%	13.72%	11.35%	40.04%	45.86%	47.23%
Return on Equity	5.79%	4.54%	17.10%	8.49%	11.43%	6.08%
Sales/Assets	0.09	0.13	0.55	0.13	0.13	0.09
Proj. Sales Growth (F1/F0)	4.18%	4.84%	4.03%	4.40%	4.22%	13.66%
Momentum Score	A	-	-	C	C	C
Daily Price Chg	1.78%	0.47%	0.26%	0.98%	1.78%	1.87%
1 Week Price Chg	5.48%	2.73%	2.29%	2.15%	2.78%	5.40%
4 Week Price Chg	7.60%	3.37%	2.24%	4.99%	6.33%	8.25%
12 Week Price Chg	9.26%	1.29%	7.79%	2.33%	3.32%	9.05%
52 Week Price Chg	43.52%	14.29%	21.61%	26.44%	38.65%	47.85%
20 Day Average Volume	1,061,394	473,922	1,536,379	2,138,131	590,015	2,261,376
(F1) EPS Est 1 week change	0.34%	0.00%	0.00%	0.00%	0.00%	1.19%
(F1) EPS Est 4 week change	0.63%	0.00%	0.00%	-0.09%	-0.07%	1.35%
(F1) EPS Est 12 week change	0.63%	-0.33%	-0.23%	1.14%	-0.07%	5.62%
(Q1) EPS Est Mthly Chg	0.80%	0.00%	0.00%	0.00%	0.00%	-0.39%

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	F
Momentum Score	A
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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