

PS Business Parks Inc. (PSB)

\$134.41 (As of 08/13/20)

Price Target (6-12 Months): **\$142.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

PS Business Parks' lower-than-expected second-quarter 2020 performance reflects adverse impact due to write-offs of accounts receivable and deferred rent receivable. The company witnessed a decline in both same-park annualized revenue per occupied-square-foot and weighted average square-foot occupancy. Yet, it noted that the pace of rent collections in July generally exceeded what was witnessed in each of the prior months starting April. Well-located portfolio amid improving industrial market fundamentals, asset-repositioning moves, decent balance-sheet strength and ample liquidity position it well to withstand cash-flow woes and sail through current blues. However, the pandemic's adverse impact on economy, rent deferrals and rise in customer defaults are concerns. Also, its shares have underperformed the industry over the past year.

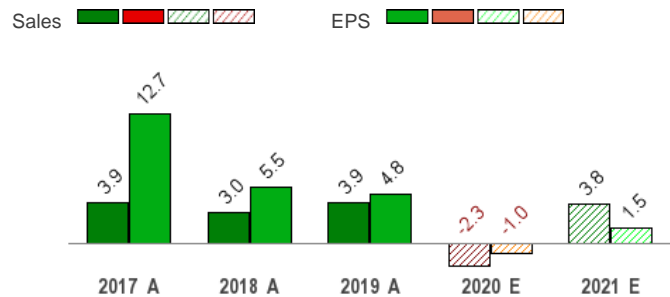
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$189.11 - \$102.48
20 Day Average Volume (sh)	114,112
Market Cap	\$3.7 B
YTD Price Change	-18.5%
Beta	0.44
Dividend / Div Yld	\$4.20 / 3.1%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 14% (217 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.2%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	20.2
P/E F1	20.1
PEG F1	4.0
P/S TTM	8.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					436 E
2020	106 A	101 A			420 E
2019	108 A	108 A	108 A	106 A	430 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.81 E
2020	\$1.72 A	\$1.59 A	\$1.66 E	\$1.66 E	\$6.71 E
2019	\$1.67 A	\$1.75 A	\$1.71 A	\$1.65 A	\$6.78 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/14/2020.

Overview

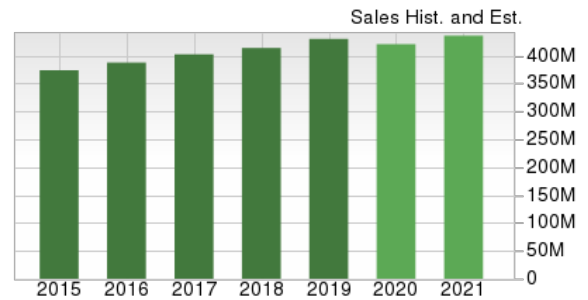
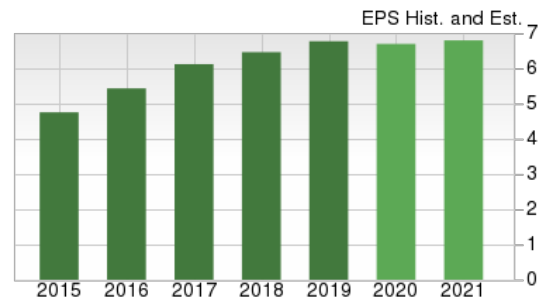
Founded in 1990, PS Business Parks, Inc. is a Glendale, CA-based real estate investment trust (REIT), which owns, acquires, develops and operates commercial real estate properties, especially multi-tenant flex, office and industrial.

"Flex" space is defined as properties that are configured with a combination of office and warehouse space. These spaces can be designed to fit a number of uses such as light manufacturing, office, showroom, laboratory, assembly and warehouse.

PS Business Parks' properties are mainly concentrated in California, Virginia, Florida, Texas, Maryland and Washington. As of Jun 30, 2020, the company had wholly-owned 27.5 million rentable square feet for around 5,000 commercial customers in six states. The company also held 95% interest in a 395-unit apartment complex as of the same date.

The company's multi-tenant commercial properties are positioned in markets that have witnessed long-term economic growth. Also, there is a certain concentration on small- and medium-size customers.

In January 2020, PS Business Parks announced the completion of buyout of two industrial/flex business parks and an office building sale transaction. Moreover, in third-quarter 2019, the company acquired a 543,000-square-foot multi-tenant industrial park in Southern California. It is positioned in a key last-mile location in the core of the Los Angeles Mid-Counties submarket.



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:

▲ PS Business Parks' portfolio is well diversified with respect to tenants and markets. This gives the company the ability to tap opportunities in different asset classes and helps in mitigating operating risk associated with a particular asset category or economic downturns in a specific region. As of Jun 30, 2020, excluding assets held for sale, leases from the company's top 10 customers comprised 9.4% of its annualized rental income, with only two customers, the U.S. Government (3.3%) and Luminex Corporation (1.1%), representing more than 1%. In addition, with respect to industry concentration, 19.2% of the company's annualized rental income comes from business services, 12.2% from warehouse, distribution, transportation and logistics, and 11.5% from computer hardware, software and related services. None of the other industry group represents more than 10% of its annualized rental income.

PS Business Parks' diversified portfolio, asset-repositioning moves, decent balance-sheet strength and ample liquidity position it well to withstand cash-flow woes and sail through current blues.

▲ The industrial real estate market is witnessing improving fundamentals amid the growth of e-commerce business. This is driving demand for warehouse space as companies are compelled to enhance and renovate their distribution and production platforms. Moreover, though the overall impact from the coronavirus pandemic is still evolving, warehouse operations have become more essential, with social distancing requirements resulting in more e-commerce customers. As such, much of the current demand is stemming from essential businesses, e-commerce, medical supply, and warehouse users, and given the company's well-positioned properties, it remains well poised to benefit from this trend.

▲ The company aims at portfolio repositioning. Currently, it operates in eight regions, in six states. It focuses on acquiring well-located, underperforming assets at a discount to replacement costs. This January, the company acquired a multi-tenant industrial park, comprising roughly 73,000 rentable square feet in La Mirada, CA, for a total purchase price of \$13.5 million. Moreover, in third-quarter 2019, the company acquired a 543,000-square-foot multi-tenant industrial park in Southern California. It is positioned in a key last-mile location in the core of the Los Angeles Mid-Counties submarket. Such portfolio acquisitions can help the company to emerge stronger amid improving industrial market fundamentals in the United States. Also, the company continues to shed office parks that it does not plan to redevelop in the near-to-mid-term. We expect these efforts to help the company achieve a better portfolio mix in the days ahead.

▲ PS Business Parks has ample financial flexibility to cushion and enhance its market position. The company exited second-quarter 2020 with cash and cash equivalents of \$98.8 million, up from the \$62.8 million reported at the end of 2019. In addition, the company has a \$250-million revolving credit facility that can be expanded to \$400 million and expires in January 2022. With no debt outstanding and lack of material capital commitments, it remains poised to navigate through the challenging times. In fact, the company's corporate credit rating by Standard and Poor's is A-. With favorable credit profile and ratings, the company remains well positioned to efficiently access both public and private capital markets to raise capital, when required.

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 is not immune. In the second half of the year, there are concerns associated with the timing and nature of economies reopening. Thus, the pandemic's adverse impact on the economy will likely affect demand for space in the near term. Also, demand for office space continues to suffer amid the pandemic and the resultant economic shutdowns. As such, the company's pricing power will continue to be affected in the near term.
- ▼ With the company's portfolio having a concentration of small and mid-size customers, it is more susceptible to the pandemic's adverse impact. The company, in fact, noted that the pandemic has had a severe negative impact on many of its customers' businesses. Given the continuation of the pandemic and the rise in infection rates and possibilities of reinstitution of restrictions, the challenging environment will likely persist in the near-term and woes with rent collections with deferrals, abatements and defaults are expected to continue. The rental income, which the company has agreed to defer and abate, aggregated \$3.8 million and \$874,000, respectively, for second-quarter 2020. Additionally, following the quarter end, the company deferred an additional \$1 million of rental income in July. Moreover, through Jul 31, 2020, 10.5% of its customers, based on total rental income, had been granted rent relief in the form of rent deferral and/or abatement.
- ▼ PS Business Parks faces intense competition from developers, owners and operators of office properties and other industrial assets, including sublease space available from its tenants. This affects its ability to attract and retain tenants at relatively higher rents than its competitors.
- ▼ Shares of PS Business Parks have depreciated 21.9% compared with the industry's decline of 5.1% over the trailing 12-month period. Further, the trend in estimate revisions of current-year FFO per share does not indicate a favorable outlook for the company, as the estimates have been unchanged over the past month. Therefore, given the above-mentioned concerns and lack of upward estimate revisions, there is limited upside potential to the stock.

Slowdown in economy amid the coronavirus pandemic will likely affect demand for space in the near term. Also, rent deferrals and rise in customer defaults in the near term are pressing concerns.

Last Earnings Report

PS Business Parks Q2 FFO and Revenues Decline Y/Y

PS Business Parks reported second-quarter 2020 core FFO per share of \$1.59, missing the Zacks Consensus Estimate of \$1.66. Moreover, the reported figure declined from \$1.75 reported in the year-ago quarter.

Quarter results reflect 3 cents per share adverse impact on FFO per share due to write-offs of accounts receivable and deferred rent receivable. The company experienced a slip in both same-park rental income and NOI reflecting a decline in both same-park annualized revenue per occupied-square-foot as well as weighted average square-foot occupancy.

Rental income came in at \$100.6 million, marking a decline of 6.7% from the year-ago quarter's \$107.8 million.

The company noted that as of Jul 31, 2020, it has collected about 92% of July's total billings, comprising 90%, 92% and 96% collection for industrial, flex and office spaces, respectively. Moreover, 3% of July's billed revenue was deferred, the majority of which had been agreed to in June or earlier, while 4% of July's total billings remained uncollected after given effect to amounts deferred or abated.

Moreover, through Jul 31, 2020, roughly 10.5% of its customers, based on total rental income, had been granted rent relief in the form of deferral and/or abatement.

Quarter in Detail

During the second quarter, PS Business Parks executed leases on 1.8 million square feet, surpassing the leasing production of 1.7 million for the prior-year quarter. Weighted average cash rental rate growth on leases executed during the quarter was 2.5%, while net effective rental rate growth was 8.5% for the same period.

Average lease term of the leases executed during the quarter was 3.2 years, with associated average transaction costs (tenant improvements and leasing commissions) of \$2.28 per square foot. This compared to average lease term and transaction costs on leases executed in the prior-year same period of 3.9 years and \$3.67 per square foot, respectively.

Same-park rental income was down 2.3% year over year to about \$92.7 million and same-park NOI slid 3.6% to \$65.7 million. Same-park annualized revenue per occupied-square-foot decreased 0.3% year on year to \$15.64. Weighted average square-foot occupancy shrunk 1.9% year on year to 92.4%.

Liquidity

PS Business Parks exited the second quarter with cash and cash equivalents of \$98.8 million, up from the \$62.8 million reported at the end of 2019.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	NA
EPS Surprise	-4.22%
Quarterly EPS	1.59
Annual EPS (TTM)	6.67

Recent News

Dividend Update

On Aug 4, the company announced a quarterly dividend of \$1.05 per common share. This dividend will be paid on Sep 30, to shareholders of record as of Sep 15, 2020.

Valuation

PS Business Parks' shares have been down 21.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 5.1% and 4.3% over the past year, respectively.

The S&P 500 Index has been up 18.9% over the trailing 12-month period.

The stock is currently trading at 19.86X forward 12-month FFO, which compares to 19.26X for the Zacks sub-industry, 16.75X 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 26.88X and as low as 14.06X, with a 5-year median of 20.03X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$142 price target reflects 20.98X FFO per share.

The table below shows summary valuation data for PSB.

Valuation Multiples - PSB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.86	19.26	16.75	22.87
	5-Year High	26.88	19.28	16.75	22.87
	5-Year Low	14.06	14.32	11.59	15.25
	5-Year Median	20.03	16.11	14.26	17.58
P/S F12M	Current	8.23	8.34	6.22	3.70
	5-Year High	11.7	8.37	6.66	3.70
	5-Year Low	4.93	5.97	4.96	2.53
	5-Year Median	8.28	7.00	6.06	3.05
P/B TTM	Current	3.59	2.23	2.47	4.70
	5-Year High	5.01	3.03	2.91	4.71
	5-Year Low	2.05	1.81	1.72	2.83
	5-Year Median	3.49	2.51	2.53	3.74

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (217 out of 252)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	PSB	X Industry	S&P 500	DRE	EGP	PLD
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	C	C
Market Cap	3.69 B	2.03 B	23.58 B	14.37 B	5.31 B	75.83 B
# of Analysts	2	4	14	5	7	9
Dividend Yield	3.12%	3.80%	1.68%	2.42%	2.22%	2.26%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.06	0.07	0.00	0.00	0.01
EV/EBITDA	14.67	14.20	13.34	20.15	24.92	29.60
PEG Ratio	3.98	4.18	2.99	5.90	5.21	3.58
Price/Book (P/B)	3.59	1.31	3.20	2.84	4.36	2.07
Price/Cash Flow (P/CF)	13.18	10.87	12.83	18.70	23.21	24.64
P/E (F1)	19.91	15.52	21.99	26.27	25.69	27.59
Price/Sales (P/S)	8.77	4.84	2.53	15.34	15.22	18.90
Earnings Yield	4.98%	5.85%	4.35%	3.82%	3.89%	3.62%
Debt/Equity	0.00	0.92	0.77	0.61	1.01	0.43
Cash Flow (\$/share)	10.20	2.05	6.94	2.07	5.82	4.17
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	8.18%	0.73%	10.41%	5.30%	7.85%	10.06%
Proj. EPS Growth (F1/F0)	-1.11%	-2.05%	-6.32%	2.50%	5.51%	12.39%
Curr. Cash Flow Growth	-14.31%	3.36%	5.20%	9.22%	25.62%	3.51%
Hist. Cash Flow Growth (3-5 yrs)	-0.32%	12.74%	8.55%	4.21%	13.87%	15.92%
Current Ratio	1.64	1.62	1.33	1.16	0.00	0.48
Debt/Capital	0.00%	48.09%	44.59%	37.81%	50.32%	29.89%
Net Margin	44.01%	10.49%	10.13%	39.78%	34.10%	43.27%
Return on Equity	18.12%	3.32%	14.51%	7.38%	10.07%	5.55%
Sales/Assets	0.20	0.13	0.51	0.11	0.14	0.08
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-1.43%	2.66%	8.38%	32.41%
Momentum Score	D	-	-	A	A	A
Daily Price Chg	-1.65%	-1.69%	-0.44%	-2.05%	-0.28%	-0.23%
1 Week Price Chg	-0.07%	2.69%	2.30%	-1.09%	3.27%	-0.33%
4 Week Price Chg	5.31%	4.76%	4.38%	9.21%	15.82%	11.44%
12 Week Price Chg	11.28%	11.28%	13.59%	17.37%	25.77%	18.80%
52 Week Price Chg	-22.84%	-18.30%	5.75%	17.84%	9.91%	26.39%
20 Day Average Volume	114,112	642,525	1,984,154	1,988,634	226,383	2,854,889
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.53%	0.66%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	2.08%	3.60%	2.88%	4.07%
(F1) EPS Est 12 week change	2.21%	-0.53%	2.66%	3.72%	2.75%	3.94%
(Q1) EPS Est Mthly Chg	0.00%	-0.05%	0.94%	4.73%	1.93%	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	D
Growth Score	C
Momentum Score	D
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.

Disclosures

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