

PS Business Parks Inc. (PSB)

\$139.29 (As of 04/14/20)

Price Target (6-12 Months): **\$148.00**

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: F

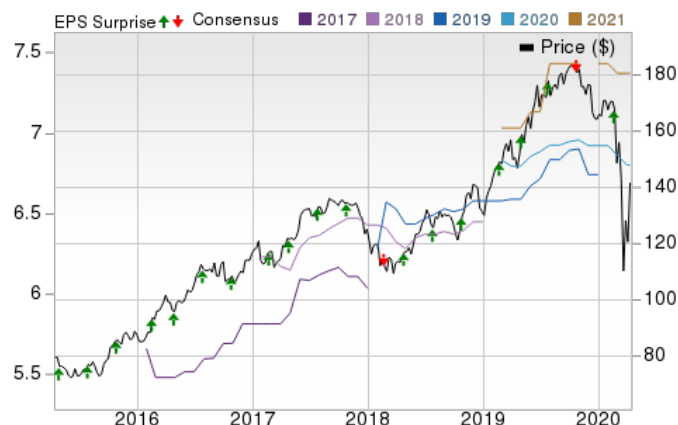
Growth: C

Momentum: B

Summary

PS Business Parks has a well-diversified portfolio with respect to tenants and markets. The company is likely to benefit from decent demand for industrial real estates. In January, the company announced the completion of buyout of two industrial/flex business parks and an office building sale transaction. Asset-repositioning efforts are likely to improve its overall portfolio quality. The company also has ample financial flexibility, while its performance in recent quarters highlighted improvement in same-park net operating income (NOI) and higher NOI from non-same-park and multifamily assets. However, high supply in certain sub-markets is a concern, while near-time dilutive impact on NOI from facilities sold cannot be avoided. Furthermore, shares of the company have underperformed the industry it belongs to over the past year.

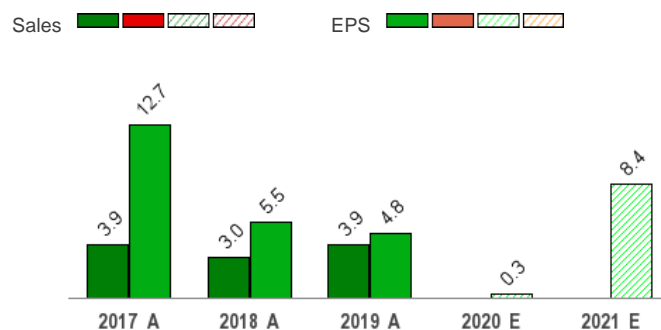
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$189.11 - \$102.48
20 Day Average Volume (sh)	161,661
Market Cap	\$3.8 B
YTD Price Change	-15.5%
Beta	0.59
Dividend / Div Yld	\$4.20 / 3.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 34% (87 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/29/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	20.5
PEG F1	4.1
P/S TTM	8.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					
2020					
2019	108 A	108 A	108 A	106 A	430 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.37 E
2020					\$6.80 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, including the Zacks Consensus EPS and Sales estimates, is as of 04/14/2020. The reports text is as of 04/15/2020.

Overview

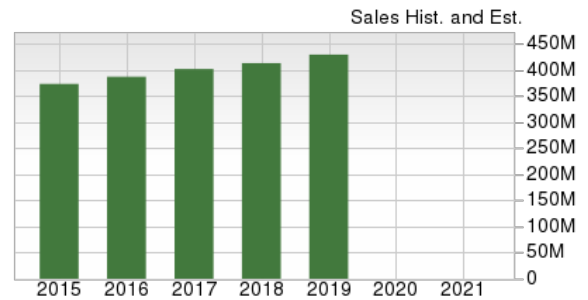
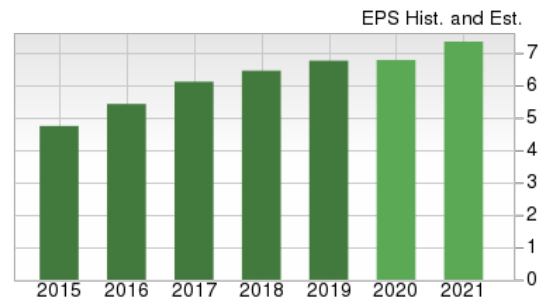
Founded in 1990, PS Business Parks, Inc. is a Glendale, CA-based real estate investment trust (REIT), which owns, acquires, develops and operates commercial real estate properties, especially multi-tenant flex, office and industrial.

"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 Jan 10, 2020, the company had wholly-owned 27.5 million rentable square feet for around 5,050 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.

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. In fact, as of Dec 31, 2019, leases from the company's top 10 customers comprised 8.6% of its annualized rental income, with only one customer, the U.S. Government (3.1%), representing more than 1%.
- ▲ 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, although the overall impact from the coronavirus pandemic is still evolving, warehouse operations have become more essential, with quarantines resulting in more e-commerce customers.
- ▲ The company reported improved operating fundamentals in fourth-quarter 2019, reflecting the strength of its infill markets, together with decent demand for space from small businesses. Results highlight improvement in same-park NOI, backed by growth in rental rates, as well as higher NOI from non-same-park and multi-family assets. Same-park rental income was up 6.6% year over year to \$97.6 million, while same-park NOI climbed 6.1% to \$70.3 million on improving rental rates. Same-Park revenue per occupied-square-foot increased 7.8% to \$16.10. Given its strength in fundamentals and favorable operating environment, such trends are likely to continue in the upcoming periods.
- ▲ 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. Such portfolio acquisitions can help the company to emerge stronger amid improving industrial market fundamentals in the United States. In January 2020, the company 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. Positioned in a key last-mile location in the core of the Los Angeles Mid-Counties submarket, the property is fully occupied. In April 2019, the company acquired a multi-tenant industrial park for \$13.8 million that comprised around 74,000 rentable square feet in Signal Hill, CA. The portfolio consists of eight buildings and was 98.4% occupied as of the date of acquisition. The buildings are located in the Signal Hill industrial submarket where the company already owns five industrial parks aggregating 268,000 square feet of space. In addition, in October, the company announced completion of sale of three business parks in Maryland for a gross price of \$148.8 million. This office/flex portfolio comprised around 1.3 million square feet of space. 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 fourth-quarter 2019 with cash and cash equivalents of \$62.8 million, up from the \$37.4 million reported at the end of 2018. Moreover, the company's strategic sale outs are likely to provide the dry powder to support its growth needs. Also, solid dividend payouts remain arguably the biggest attraction for REIT investors and PS Business Parks remains committed to that. In July 2018, the company announced a quarterly dividend of \$1.05 per share, denoting an increase of 23.5% from the previous payout. Thereafter, the company has retained same dividend amount. 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.

PS Business Parks' diversified portfolio, asset-repositioning strategies, healthy real estate market fundamentals as well as ample liquidity augur well for growth.

Reasons To Sell:

- ▼ Recovery in the industrial market has continued for long and a whole lot of new buildings are available in the market, leading to higher supply and lesser scope for rent and occupancy growth. Also, the coronavirus pandemic and its impact on the economy have added to the company's woes.
- ▼ 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 declined 11.9% as against the industry's depreciation of 5.9% over the trailing 12-month period. Moreover, the trend in estimate revisions of current-year FFO per share does not indicate a favorable outlook for the company as the estimates remains unchanged over the past two months. Therefore, given the above-mentioned concerns and lack of positive estimate revisions, there is limited upside potential to the stock.

Rising number of new facilities, intense competition from developers, owners and operators, and protectionist trade policies are the company's chief concerns.

Last Earnings Report

PS Business Parks Q4 FFO and Revenues Beat Estimates

PS Business Parks reported fourth-quarter 2019 core FFO per share of \$1.65, which exceeded the Zacks Consensus Estimate of \$1.63. The figure remains flat, year over year.

Results highlight improvement in same-park NOI, backed by growth in rental rates, as well as higher NOI from non-same-park and multi-family assets.

Rental income came in at around \$106.2 million, marking 2% growth from the year-ago quarter.

For full-year 2019, core FFO per share came in at \$6.78, higher than the prior-year tally of \$6.47. Rental income for the year came in at 429.8 million, up 3.9% year on year.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	NA
EPS Surprise	1.23%
Quarterly EPS	1.65
Annual EPS (TTM)	6.78

Quarter in Detail

Same-park rental income was up 6.6% year over year to \$97.6 million, while same-park NOI climbed 6.1% to \$70.3 million on improving rental rates.

Same-Park revenue per occupied-square-foot increased 7.8% to \$16.10. However, weighted average square-foot occupancy shrunk 100 basis points year on year to 94.4%.

Portfolio Activity

During the fourth quarter, PS Business Parks completed the sale of three business parks in Montgomery County, MD — Metro Park North, Meadow Business Park and WesTech Business Park. These parks comprised 128 buildings, aggregating 1.3 million square feet of space, and were sold for \$148.8 million.

Further, the company acquired a multi-tenant flex park — San Tomas Business Center —comprising roughly 79,000 rentable square feet in Santa Clara, CA, for \$16.6 million.

Liquidity

PS Business Parks exited fourth-quarter 2019 with cash and cash equivalents of \$62.8 million, up from the \$37.4 million reported at the end of 2018.

Recent News

PS Business Parks Buys Industrial Parks, Sheds 1 Office Asset – Jan 16, 2020

PS Business Parks announced the completion of buyout of two industrial/flex business parks and an office building sale transaction. All three transactions qualify as 1031 exchanges for tax purposes.

The company acquired San Tomas Business Center located in Santa Clara, CA, on Dec 20, 2019. It shelled out \$16.6 million for the purchase. The park encloses nine buildings, spanning 79,400 square feet of space, with suites ranging from 200-3,500 square feet.

The property is situated at the center of the Silicon Valley, with easy access to Highway 101. This has likely attracted tenant interest at the property, enabling it to be 96% occupied at the time of the deal's closure. Further, the purchase complements and strengthens the company's existing Silicon Valley footprint that spans 3.5 million square feet of space.

Later on Jan 10, this year, the company acquired another five-building-park — La Mirada Commerce Center — for \$13.7 million. This park covers 73,400 square feet and has suites ranging from 1,200-3,000 square feet.

The property is situated in La Mirada, CA, in the mid-counties industrial market near Interstate 5. This strategic location has enabled the property to be fully occupied at closing. The buyout will fortify the company's presence in Southern California that aggregates 1.7 million square feet.

In addition, exiting the Metro Park North market in Rockville, MD, the company sold Metro Park IV on Jan 7. The single-tenant office building spans 113,000 square feet of space and was sold for \$30 million. Notably, the property was excluded from the sale of the broader portfolio of the sub-urban Maryland office properties last October.

Specifically, in early October, PS Business Parks completed the sale of three business parks in Maryland, for a gross price of \$148.8 million. The parks — Metro Park North, Meadow Business Park and WesTech Business Park— in Montgomery County consist of 28 buildings aggregating around 1.3 million square feet.

Dividend Update

On Feb 18, the company announced a quarterly dividend of \$1.05 per share. The dividend was paid on Mar 31, to shareholders of record as of Mar 16, 2020.

Valuation

PS Business Parks' shares have been down 11.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 5.9% and 18.9% over the past year.

The S&P 500 Index is down 2.5% over the past year.

The stock is currently trading at 20.00X forward 12-month FFO, which compares to 16.70X for the Zacks sub-industry, 13.07X for the Zacks sector and 18.03X 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 19.96X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$148 price target reflects 21.25X 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	20	16.7	13.07	18.03
	5-Year High	26.88	18.1	16.19	19.34
	5-Year Low	14.06	14.32	11.23	15.19
	5-Year Median	19.96	16.08	13.95	17.45
P/S F12M	Current	8.6	7.41	4.93	3.04
	5-Year High	11.7	8.14	6.65	3.44
	5-Year Low	4.93	5.91	4.93	2.54
	5-Year Median	8.17	6.87	6.03	3.01
P/B TTM	Current	3.76	2.55	2.08	3.65
	5-Year High	5.01	3.01	2.89	4.55
	5-Year Low	2.05	1.8	1.69	2.84
	5-Year Median	3.45	2.51	2.51	3.64

As of 04/14/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 253)



Top Peers

Americold Realty Trust (COLD)	Neutral
Duke Realty Corporation (DRE)	Neutral
EastGroup Properties, Inc. (EGP)	Neutral
First Industrial Realty Trust, Inc. (FR)	Neutral
Prologis, Inc. (PLD)	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		
	PSB Neutral	X Industry	S&P 500	DRE Neutral	EGP Neutral	PLD Neutral
VGM Score	D	-	-	D	F	D
Market Cap	3.82 B	1.95 B	19.79 B	13.12 B	4.44 B	65.89 B
# of Analysts	1	4	14	7	8	7
Dividend Yield	3.02%	4.87%	2.16%	2.64%	2.64%	2.60%
Value Score	F	-	-	F	F	F
Cash/Price	0.02	0.03	0.06	0.01	0.00	0.02
EV/EBITDA	15.20	13.69	11.74	18.42	21.43	24.97
PEG Ratio	3.85	3.56	2.15	5.95	5.81	3.56
Price/Book (P/B)	3.76	1.21	2.65	2.58	3.68	2.17
Price/Cash Flow (P/CF)	13.66	10.38	10.40	17.17	19.57	21.40
P/E (F1)	19.27	12.80	17.72	24.44	21.92	24.51
Price/Sales (P/S)	8.89	4.60	2.06	13.47	13.41	19.78
Earnings Yield	4.88%	7.83%	5.46%	4.10%	4.56%	4.08%
Debt/Equity	0.00	0.84	0.70	0.57	0.98	0.46
Cash Flow (\$/share)	10.20	2.03	7.01	2.07	5.82	4.17
Growth Score	C	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	8.97%	2.75%	10.92%	4.24%	7.75%	10.85%
Proj. EPS Growth (F1/F0)	0.29%	0.71%	-2.65%	1.19%	4.27%	9.88%
Curr. Cash Flow Growth	-14.31%	3.51%	5.93%	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	1.15	1.30	1.24	1.05	0.00	1.54
Debt/Capital	0.00%	45.72%	42.36%	36.46%	49.59%	31.35%
Net Margin	37.63%	15.04%	11.64%	44.05%	36.71%	47.23%
Return on Equity	15.91%	4.47%	16.74%	8.80%	11.45%	6.09%
Sales/Assets	0.21	0.13	0.54	0.12	0.14	0.09
Proj. Sales Growth (F1/F0)	0.00%	1.04%	0.00%	2.26%	8.06%	33.54%
Momentum Score	B	-	-	D	D	B
Daily Price Chg	4.97%	1.90%	2.56%	5.04%	4.95%	3.17%
1 Week Price Chg	17.48%	22.89%	16.01%	20.18%	22.00%	24.65%
4 Week Price Chg	18.75%	12.49%	11.39%	22.33%	13.90%	26.11%
12 Week Price Chg	-19.53%	-24.71%	-19.33%	-0.92%	-16.79%	-6.72%
52 Week Price Chg	-5.99%	-22.19%	-11.64%	19.10%	3.64%	22.51%
20 Day Average Volume	161,661	1,161,464	3,452,738	3,245,945	395,264	5,851,156
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.16%	-0.50%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.64%	-6.42%	-3.50%	-1.68%	-1.34%
(F1) EPS Est 12 week change	-1.73%	-3.06%	-8.69%	-3.86%	-1.55%	-0.32%
(Q1) EPS Est Mthly Chg	NA%	-2.23%	-11.08%	-2.63%	-1.08%	0.20%

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	C
Momentum Score	B
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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