

PS Business Parks Inc. (PSB)

\$127.02 (As of 06/24/20)

Price Target (6-12 Months): **\$135.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

PS Business Parks has collected about 88% of its total rental receipts for May, marking a fall from April's 96%. The May rental collection comprised 86%, 88% and 95% of rental collections for its industrial, flex and office properties, respectively. The company also noted that of its uncollected receivable balances for April and May, about 65% and 47%, respectively, are attributable to tenants in California. Notably, the coronavirus pandemic's adverse impact on the economy will likely affect demand for space in the near term. Moreover, rent deferrals and rise in customer defaults are concerns. Shares have underperformed its industry over the past year. However, its diversified portfolio, asset-repositioning moves, decent balance-sheet strength and ample liquidity poise it well to withstand cash-flow woes and sail through current blues.

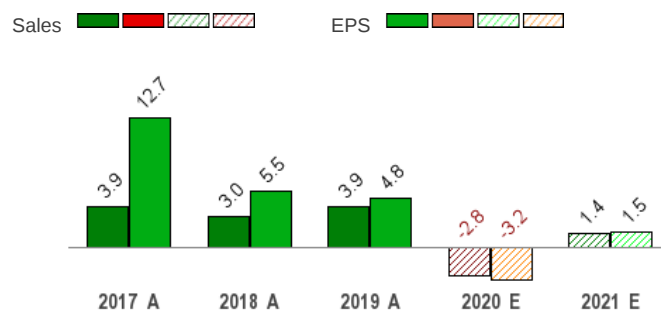
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$189.11 - \$102.48
20 Day Average Volume (sh)	157,264
Market Cap	\$3.5 B
YTD Price Change	-23.0%
Beta	0.44
Dividend / Div Yld	\$4.20 / 3.3%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 31% (174 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	07/28/2020
Earnings ESP	0.0%
P/E TTM	18.6
P/E F1	19.4
PEG F1	3.9
P/S TTM	8.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					424 E
2020	106 A				418 E
2019	108 A	108 A	108 A	106 A	430 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.66 E
2020	\$1.72 A	\$1.57 E	\$1.57 E	\$1.60 E	\$6.56 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 06/24/2020. The reports text and the analyst-provided sales and EPS estimates are as of 06/25/2020.

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.

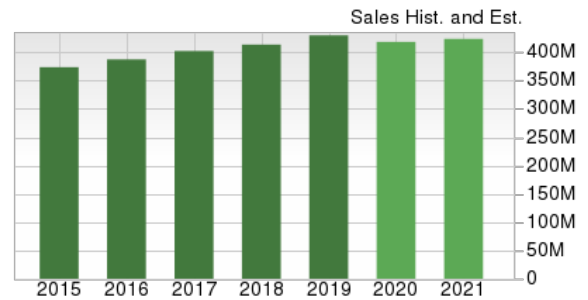
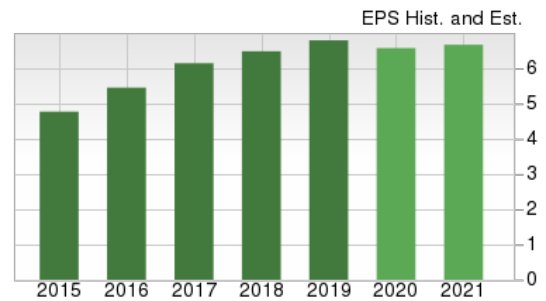
"Flex" space is defined as properties that are configured with a combination of office and warehouse space. These spaces can be designed to fit a number of uses such as light manufacturing, office, showroom, laboratory, assembly and warehouse.

PS Business Parks' properties are mainly concentrated in California, Virginia, Florida, Texas, Maryland and Washington. As of Mar 31, 2020, the company had wholly-owned 27.5 million rentable square feet for around 5,000 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. Positioned in a key last-mile location in the core of the Los Angeles Mid-Counties submarket, the property is fully occupied.

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 Mar 31, 2020, leases from the company's top 10 customers comprised 8.7% of its annualized rental income, with only one customer, the U.S. Government (3.3%), representing more than 1%. In addition, with respect to industry concentration, 19.7% of the company's annualized rental income comes from business services, 12.9% from warehouse, distribution, transportation and logistics, and 11% from computer hardware, software and related services. None of the other industry group represents more than 10% of our 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. 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 first-quarter 2020 with cash and cash equivalents of \$87.9 million, up from the \$62.8 million reported at the end of 2019. In addition this, the company has \$250 million of borrowing capacity on its credit facility, resulting in approximately \$340 million of liquidity. With no debt outstanding and lack of material capital commitments, it remains poised to navigate through the challenging times.

Reasons To Sell:

- ▼ Recovery in the industrial market has continued for long and market rents are expected to remain flat for the rest of 2020. Moreover, though industrial real estate fundamentals seem more resilient than other asset categories, are not immune. The pandemic's adverse impact on the economy will likely continue and mar demand for space in the near term, resulting in lower leasing demand and occupancy for the company's properties through the rest of the year.
- ▼ Apart from the negative impact from lower occupancy levels, the company expects same-park cash NOI for the last three quarters of 2020 to be affected by rent deferrals, as well as anticipation for rise in customer defaults higher than what it had experienced over the past several years, with the impact magnitude depending on the length and severity of the pandemic and economic recovery at both the regional and national levels. With the company's portfolio having a concentration on small-size customers, it is more susceptible to the adverse impact from the pandemic. The company noted that in its industrial portfolio, the tenants that have failed to make rent payments are retail-oriented customers, like furniture warehouses and bedding stores, with their retail storefronts being shuttered. It also has some retail exposure within its flex portfolio. Nevertheless, the office segment provides some relief as for being anchored with GSA leases and leases with government contractors, who have not been as affected by the shelter-in-place orders.
- ▼ 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 25.4% compared with the industry's decline of 4.6% 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 have remained 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 Q1 FFO Up Y/Y on Rental Rate Growth

PS Business Parks reported first-quarter 2020 core FFO per share of \$1.72. The figure increased 2.5% year over year.

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

However, rental income came in at \$106.2 million, displaying a decline of 1.5% from the year-ago quarter's \$107.8 million.

Additionally, the company informed that it has collected about 88% of its April rent. This comprised 85%, 87% and 97% collection for industrial, flex and office spaces, respectively.

Quarter in Detail

Same-park rental income was up 3.3% year over year to about \$98 million, while same-park NOI climbed 4.7% to \$69.8 million on improving rental rates.

Same-park annualized revenue per occupied-square-foot increased 5.4% to \$16.42. However, weighted average square-foot occupancy shrunk 190 basis points year on year to 92.9%.

Portfolio Activity

On Jan 7, PS Business Parks completed the sale of Metro Park IV. This is a single-tenant building spanning 113,000 square feet in Montgomery County, MD. The building was sold for \$30 million.

Further, on Jan 10, the company acquired a multi-tenant industrial park, La Mirada Commerce Center, comprising roughly 73,000 rentable square feet in La Mirada, CA, for \$13.4 million.

Liquidity

PS Business Parks exited first-quarter 2020 with cash and cash equivalents of \$87.9 million, up from the \$62.8 million reported at the end of 2019.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	NA
EPS Surprise	1.23%
Quarterly EPS	1.72
Annual EPS (TTM)	6.83

Recent News

PS Business Parks Collects 88% of May Rental Receipts - Jun 2, 2020

PS Business Parks has collected about 88% of its total rental receipts for May, marking a fall from April's 96%. The May rental collection comprised 86%, 88% and 95% of rental collections for its industrial, flex and office properties, respectively.

For May, the company's level of outstanding rents for industrial, flex and office properties stood at 8%, 8% and 3%, respectively. Its level of deferred rents is at 4%, 4% and 2% for industrial, flex and office properties, respectively. Abatement levels of rent stood at 1% for industrial properties, though there were no abatements for flex and office properties.

PS Business Parks also noted that of its uncollected receivable balances for April and May, about 65% and 47%, respectively, are attached to tenants in California. This is because of some government orders, which thwarted the rent-collection efforts. The company has additionally granted rent relief to about 3% of its customers for the two months ended May 31, 2020.

PS Business Parks leased about 942,000 square feet of space for the two-month period ended May 31, 2020, marking an increase from the 869,000 square feet leased witnessed in the prior-year period. The company witnessed a cash rental growth rate of 4.3% in this space for the period. However, weighted average occupancy for the total portfolio was 91.7% for the two-month period ended May 31, 2020, down from the prior-year period's 92.7%.

Dividend Update

On Apr 22, the company announced a quarterly dividend of \$1.05 per common share. This dividend will be paid on Jun 30, to shareholders of record as of Jun 15, 2020.

Valuation

PS Business Parks' shares have been down 25.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 4.6% and 12.9% in the past year, respectively.

The S&P 500 Index is up 7.6% in the past year.

The stock is currently trading at 19.23X forward 12-month FFO, which compares to 18.52X for the Zacks sub-industry, 16.40X for the Zacks sector and 22.46X 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 19.99X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$135 price target reflects 20.44X 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	19.23	18.52	16.40	22.46
	5-Year High	26.88	18.52	16.40	22.46
	5-Year Low	14.06	14.32	11.57	15.23
	5-Year Median	19.99	16.08	13.98	17.49
P/S F 12M	Current	7.81	7.98	6.00	3.51
	5-Year High	11.7	8.14	6.66	3.51
	5-Year Low	4.93	5.91	4.95	2.53
	5-Year Median	8.24	6.89	6.06	3.02
P/B TTM	Current	3.39	2.33	2.34	4.28
	5-Year High	5.01	3.01	2.91	4.56
	5-Year Low	2.05	1.80	1.71	2.83
	5-Year Median	3.47	2.50	2.53	3.68

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (174 out of 253)



Top Peers

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

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)	4	-	-	3	2	3
VGM Score	D	-	-	D	D	C
Market Cap	3.49 B	1.82 B	21.05 B	12.74 B	4.50 B	66.32 B
# of Analysts	2	4	14	6	8	9
Dividend Yield	3.31%	4.22%	1.99%	2.72%	2.60%	2.58%
Value Score	D	-	-	D	D	D
Cash/Price	0.02	0.06	0.07	0.01	0.00	0.01
EV/EBITDA	14.05	13.87	12.43	18.16	21.91	26.43
PEG Ratio	3.89	3.58	2.85	5.64	5.42	3.49
Price/Book (P/B)	3.39	1.19	2.87	2.53	3.78	1.81
Price/Cash Flow (P/CF)	12.46	10.39	11.32	16.67	19.82	21.56
P/E (F1)	19.47	14.15	20.46	24.13	22.27	25.03
Price/Sales (P/S)	8.15	4.57	2.19	13.62	13.20	18.75
Earnings Yield	5.16%	6.17%	4.57%	4.14%	4.49%	4.00%
Debt/Equity	0.00	0.92	0.77	0.63	1.05	0.43
Cash Flow (\$/share)	10.20	2.03	7.01	2.07	5.82	4.17
Growth Score	C	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	8.81%	2.02%	10.84%	4.84%	7.77%	10.27%
Proj. EPS Growth (F1/F0)	-3.24%	-2.81%	-10.79%	-0.47%	3.97%	8.39%
Curr. Cash Flow Growth	-14.31%	3.36%	5.46%	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	1.58	1.83	1.29	1.97	0.01	0.91
Debt/Capital	0.00%	48.50%	45.14%	38.50%	51.19%	29.89%
Net Margin	44.22%	12.85%	10.53%	43.19%	35.88%	48.50%
Return on Equity	18.56%	3.98%	16.06%	8.14%	10.83%	6.00%
Sales/Assets	0.21	0.13	0.55	0.11	0.14	0.08
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-2.70%	2.58%	7.35%	27.15%
Momentum Score	B	-	-	C	D	A
Daily Price Chg	-2.61%	-3.41%	-3.07%	-2.29%	-2.93%	-1.80%
1 Week Price Chg	-0.21%	-1.67%	0.92%	0.71%	-1.97%	-2.74%
4 Week Price Chg	-2.65%	-2.18%	-3.03%	1.32%	-2.21%	-2.14%
12 Week Price Chg	4.51%	19.46%	22.03%	14.58%	24.61%	22.58%
52 Week Price Chg	-25.35%	-19.12%	-8.53%	12.24%	2.53%	14.92%
20 Day Average Volume	157,264	1,057,030	2,805,937	2,958,243	338,985	3,729,730
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.53%	-3.91%	-12.33%	-3.90%	-0.79%	-1.67%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	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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