

PS Business Parks Inc. (PSB)

\$171.78 (As of 01/30/20)

Price Target (6-12 Months): **\$182.00**

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' portfolio is well diversified with respect to tenants and markets. It is likely to benefit from healthy fundamentals in industrial and flex categories in the days ahead. The company recently 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 multi-family assets. However, high supply in certain sub-markets is a concern, while near-time dilutive impact on NOI from facilities sold cannot be avoided. Further, shares of the company have underperformed its industry in the past six months.

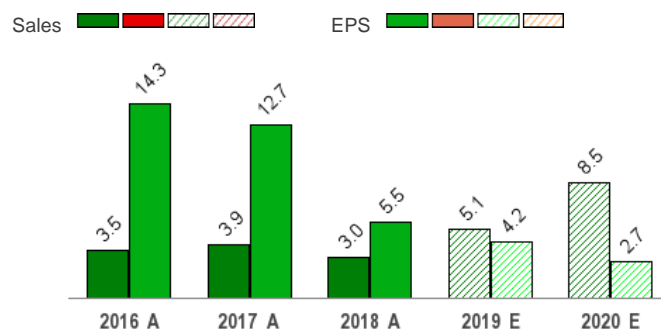
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$189.11 - \$141.69
20 Day Average Volume (sh)	86,832
Market Cap	\$4.7 B
YTD Price Change	4.2%
Beta	0.39
Dividend / Div Yld	\$4.20 / 2.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 35% (165 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.2%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/18/2020
Earnings ESP	0.0%
P/E TTM	25.3
P/E F1	24.8
PEG F1	5.0
P/S TTM	11.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					472 E
2019	108 A	108 A	108 A		435 E
2018	104 A	102 A	104 A	104 A	414 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$6.92 E
2019	\$1.67 A	\$1.75 A	\$1.71 A		\$6.74 E
2018	\$1.59 A	\$1.59 A	\$1.64 A	\$1.65 A	\$6.47 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/30/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/31/2020.

Overview

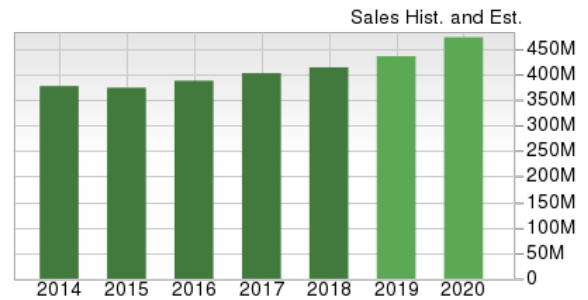
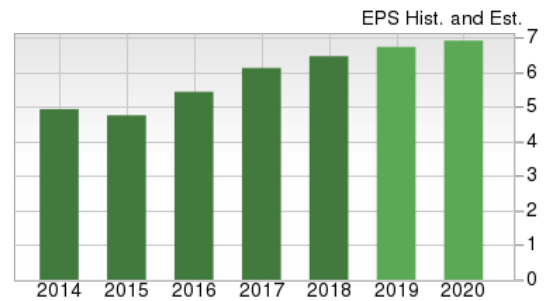
Founded in 1990, PS Business Parks, Inc. is a Glendale, CA-based real estate investment trust (REIT), which owns, acquires, develops and operates commercial real estate properties, especially multi-tenant flex, office and industrial.

"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 Oct 22, 2019, the company had wholly-owned 27.5 million rentable square feet for around 4,900 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 Sep 30, 2019, leases from the company's top 10 customers comprised 8.8% of its annualized rental income, with only one customer, the U.S. Government (3.9%), 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. Further, job market gains and resilient consumer sentiment are likely to drive demand from other sectors besides e-commerce. Moreover, demand for office space is likely to benefit from the healthy job market.
- ▲ The company reported improved operating fundamentals in third-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 4.2% year over year to \$96.2 million, while Same-Park NOI climbed 3.6% year over year to \$68.5 million, driven by improving rental rates. Same-Park annualized revenue per occupied-square-foot increased 4.6% to \$15.74. 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. Moreover, 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 third-quarter 2019 with cash and cash equivalents of \$6.7 million. However, the company's strategic sale outs are likely to provide the dry powder to support its growth needs. Moreover, 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 slated to be completed and made available in the market in the near term, leading to higher supply and lesser scope for rent and occupancy growth. Additionally, any protectionist trade policies will have an adverse impact on economic growth and the company's business over the long term.
- ▼ 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.
- ▼ Although interest rate levels are low at present, 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. Additionally, the dividend payout might become less attractive than the yields on fixed income and money-market accounts.
- ▼ Shares of PS Business Parks have declined 1.5% against the industry's growth of 6.1% in the past six months. Moreover, the trend in estimate revisions of current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share remained unrevised in the past month. 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 Q3 FFO Misses, Revenues Beat Estimates

PS Business Parks reported third-quarter 2019 FFO of \$1.71 per share, which narrowly missed the Zacks Consensus Estimate of \$1.73. However, the figure comes in 4.3% higher than the prior-year quarter's \$1.64.

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. However, NOI reduction due to facilities sold in 2018 partly offset the positives.

Rental income came in at around \$108.1 million, marking 4.1% growth from the year-ago quarter tally. The reported figure also exceeded the Zacks Consensus Estimate of \$106.8 million.

Quarter in Detail

Same-Park rental income was up 4.2% year over year to \$96.2 million, while Same-Park NOI climbed 3.6% year over year to \$68.5 million, driven by improving rental rates.

Same-Park annualized revenue per occupied-square-foot increased 4.6% to \$15.74. However, weighted average square-foot occupancy shrunk 40 basis points year on year to 94.7%.

Liquidity

PS Business Parks exited third-quarter 2019 with cash and cash equivalents of \$6.7 million, down from the \$37.4 million reported at the end of 2018.

Quarter Ending 09/2019

Report Date	Oct 22, 2019
Sales Surprise	1.21%
EPS Surprise	-1.16%
Quarterly EPS	1.71
Annual EPS (TTM)	6.78

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 Oct 22, the company announced a quarterly dividend of \$1.05 per share. The dividend was paid on Dec 30, to shareholders of record as of Dec 13, 2019.

Valuation

PS Business Parks' shares have been up 19.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 14.5% and 8.6%, over the past year.

The S&P 500 Index has been up 20.4% over the trailing 12-month period.

The stock is currently trading at 24.67X forward 12-month FFO, which compares to 18.38X for the Zacks sub-industry, 14.74X for the Zacks sector and 18.83X 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 19.84X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$182 price target reflects 26.14X 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	24.67	18.38	14.74	18.83
	5-Year High	26.88	18.85	16.21	19.34
	5-Year Low	14.06	14.29	12.01	15.18
	5-Year Median	19.84	16.1	13.98	17.45
P/S F12M	Current	10.68	8.28	6.53	3.49
	5-Year High	11.7	8.28	6.61	3.49
	5-Year Low	4.93	5.9	5.2	2.54
	5-Year Median	8.1	6.88	6.04	3
P/B TTM	Current	4.64	2.87	2.81	4.49
	5-Year High	5.01	2.89	2.89	4.55
	5-Year Low	2.05	2.06	1.83	2.85
	5-Year Median	3.4	2.52	2.51	3.62

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 255)



Top Peers

Duke Realty Corporation (DRE)	Neutral
EastGroup Properties, Inc. (EGP)	Neutral
First Industrial Realty Trust, Inc. (FR)	Neutral
Liberty Property Trust (LPT)	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	LPT Neutral	PLD Neutral
VGM Score	D	-	-	F	F	F
Market Cap	4.71 B	2.95 B	23.94 B	13.50 B	10.22 B	60.78 B
# of Analysts	1	4	13	7	3	9
Dividend Yield	2.44%	4.01%	1.77%	2.56%	2.53%	2.20%
Value Score	D	-	-	F	F	F
Cash/Price	0.00	0.03	0.04	0.01	0.05	0.02
EV/EBITDA	15.35	17.74	14.14	20.49	37.51	23.82
PEG Ratio	4.93	3.40	2.01	5.35	4.04	4.35
Price/Book (P/B)	4.64	1.69	3.25	2.66	2.47	2.33
Price/Cash Flow (P/CF)	14.39	14.77	13.56	17.86	28.83	22.41
P/E (F1)	24.67	15.77	18.90	24.23	24.24	25.89
Price/Sales (P/S)	11.02	7.13	2.64	13.86	15.43	18.25
Earnings Yield	4.03%	6.33%	5.28%	4.14%	4.13%	3.87%
Debt/Equity	0.05	0.88	0.72	0.57	0.78	0.46
Cash Flow (\$/share)	11.94	2.27	6.92	2.06	2.25	4.29
Growth Score	C	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	8.83%	3.10%	10.68%	3.68%	1.58%	10.85%
Proj. EPS Growth (F1/F0)	2.67%	4.05%	7.59%	5.26%	5.30%	12.29%
Curr. Cash Flow Growth	76.31%	12.29%	10.81%	8.29%	-26.23%	6.71%
Hist. Cash Flow Growth (3-5 yrs)	9.01%	16.89%	8.78%	7.88%	2.06%	16.63%
Current Ratio	0.48	1.27	1.22	2.61	7.33	0.53
Debt/Capital	2.47%	46.68%	42.99%	36.46%	43.89%	31.35%
Net Margin	35.61%	13.48%	11.69%	44.05%	64.23%	47.23%
Return on Equity	14.96%	4.54%	17.33%	8.80%	5.79%	6.08%
Sales/Assets	0.21	0.13	0.55	0.12	0.09	0.09
Proj. Sales Growth (F1/F0)	%	4.89%	4.12%	4.31%	4.18%	19.33%
Momentum Score	D	-	-	B	B	C
Daily Price Chg	0.57%	0.00%	0.36%	0.96%	-0.23%	-0.30%
1 Week Price Chg	-0.05%	0.14%	-1.09%	1.21%	2.06%	1.99%
4 Week Price Chg	4.11%	3.51%	-0.22%	6.87%	8.88%	8.83%
12 Week Price Chg	-2.84%	2.32%	4.08%	6.09%	10.41%	10.26%
52 Week Price Chg	18.31%	8.07%	16.06%	25.62%	37.63%	39.11%
20 Day Average Volume	86,832	475,465	1,808,632	2,333,041	1,094,892	2,625,283
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.38%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.09%	0.63%	1.73%
(F1) EPS Est 12 week change	-0.50%	-0.07%	-0.09%	1.14%	0.63%	3.88%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	0.80%	-1.57%

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.

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