Piedmont Office Realty Trust (PDM)

Updated October 29th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$2.2B
Fair Value Price:	$20	**5 Year Growth Estimate:**	2.2%	**Ex-Dividend Date:**	11/25/21
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	01/04/22
Dividend Yield:	4.7%	**5 Year Price Target**	$22	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	3.7%

Overview & Current Events

Piedmont Office Realty Trust, Inc. owns, manages, develops, redevelops, and operates high-quality office properties located primarily in sub-markets within seven major Eastern U.S. office markets. The company derives most of its revenues from U.S. government entities, business services companies, and financial institutions in the Sunbelt region. PDM is fully-integrated and self-managed. The company has local management offices in each of their markets. Piedmont trades on the NYSE under the ticker symbol PDM and is headquartered in Atlanta, Georgia. The office REIT has a market capitalization of $2.2 billion.

On October 27th, Piedmont released third quarter results. The company reported core funds from operations (FFO) of $62.0 million, a minor increase compared to the $60.2 million generated in the same prior year quarter. Core FFO per share of $0.50 came in two pennies above Q3 2020's results. PDM saw a roughly 12% increase in same store net operating income on a cash basis and a 5% increase on an accrual basis. The company leased 509,000 square feet in the quarter, including 221,000 of new tenant leasing. The weighted average lease term during the third quarter was 6.4 years.

As of September 30th, PDM had no secured debt, and the company has no collateralized real estate assets. Piedmont's average net debt-to-Core EBITDA was 5.5x as of the end of the quarter, and the debt-to-gross assets ratio was 34.4%. The company has $422 million available on their $500 million line of credit. PDM's binding contract to sell 225 and 235 Presidential Way for $129 million, or $293 per square foot, is expected to close in early 2022. On October 22nd, Piedmont acquired 999 Peachtree Street, a 622,000 square foot, 28-story building located in Atlanta for $223.9 million, or $360 per square foot. The building is roughly 77% leased.

Leadership has upgraded their financial estimations for 2021 core funds from operations, from a prior mid-point expectation of $1.93 to a new mid-point of $1.97.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CFFO/S	$1.57	$1.43	$1.46	$1.49	$1.60	$1.67	$1.75	$1.73	$1.79	$1.89	**$1.97**	***$2.19***
DPS	$1.26	$0.80	$0.80	$0.81	$0.84	$0.84	$1.34	$0.84	$0.84	$0.84	**$0.84**	***$0.88***
Shares[1]	173.0	170.4	165.1	154.6	150.9	145.6	145.4	130.6	126.2	126.1	**124.0**	***120.0***

Piedmont measures performance using core funds from operations (CFFO) per share, as it provides a more accurate representation of the REIT's cash flow rather earnings per share (EPS), which can include a large amount of depreciation, or the gain on sale of real estate. In the last nine and five years, PDM has managed to grow core FFO by 2.1% and 2.9% annually, on average. While results have been relatively choppy, there exists a long term track record of positive growth. Given the ongoing struggles of the office real estate space due to the COVID pandemic, we estimate PDM will grow core FFO at the bottom of this range, at roughly 2.2% annually.

[1] In millions

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PDM will focus on growing its real estate concentration in their seven identified growth sub-markets of Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. The Trust believes that working from home should diminish as the pandemic subsides in the U.S. and they are well-positioned to adapt to the updated workforce preferences. The Trust will recycle capital into assets within their targeted submarkets that should benefit from the migration trends that COVID has accelerated. Piedmont has sold more than $1 billion of assets since early 2019 and redeployed into higher yielding assets. Currently there are approximately 770,000 million square feet in leases under an abatement period or yet to commence. Among its peers, PDM has a strong estimated same store cumulative NOI growth for 2021 and 2022 of 7.7% and is priced among the lowest in terms of valuation. PDM's share count, unlike most other REITs, has decreased over the long term, and this is a positive since core FFO is concentrated over a lower number of units, effectively increasing the core FFO per share.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	12.0	12.2	12.7	12.3	11.5	12.1	11.9	10.8	11.5	9.0	**9.1**	***10.0***
Avg. Yld.	6.8%	6.0%	4.4%	4.4%	4.5%	4.2%	4.0%	4.5%	4.1%	5.1%	**4.7%**	***4.0%***

Piedmont's valuation has trended lower in recent years, with a nine and five year average price-to-core FFO of 11.6 and 11.1. Presently PDM trades at 9.1 times estimated core FFO, and we believe the discount to be a little steep, thus we believe the Trust can benefit from a 1.9% tailwind to the valuation and reach 10 times core FFO.

Safety, Quality, Competitive Advantage, & Recession Resiliency

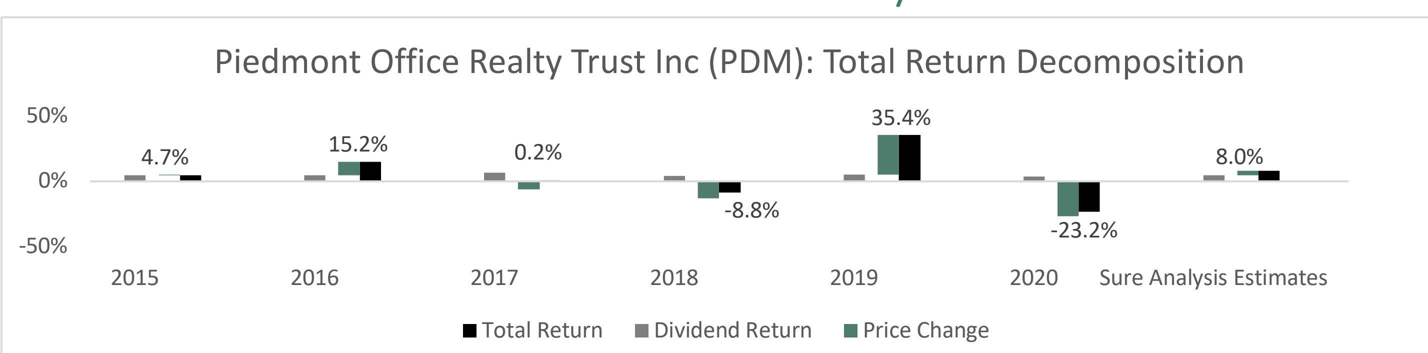
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	80%	56%	55%	54%	53%	50%	77%	49%	47%	44%	***43%***	***40%***

Piedmont Office Realty Trust has a fair payout ratio based on its core FFO, and we believe the distribution is safe. The company has not made a habit of raising the dividend, so as core FFO grows over the long term, the payout ratio decreases. The Trust had not been around during the start of the Great Recession, but we can assume that such a recession would be a risk. While office leases tend to be fairly stable, the pandemic and resulting remote work could result in a permanent paradigm shift, which would result in less office space being required. PDM does not possess any strong competitive advantage, but it's focus on its identified growth submarkets is a strength.

Final Thoughts & Recommendation

Overall, we expect total returns of 8.0% annually, mainly driven by the 4.7% dividend yield as well as modest growth and a small valuation tailwind. The company is trading at a small discount, and hovers around 91% of our estimated fair value. As a result, we rate Piedmont Office Realty Trust a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	525	521	550	566	585	556	574	526	533	535
Gross Profit	323	315	329	327	343	335	352	317	322	320
Gross Margin	61.4%	60.4%	59.8%	57.7%	58.6%	60.3%	61.3%	60.2%	60.4%	59.8%
SG&A Exp.	25	21	22	24	30	27	29	30	38	27
D&A Exp.	166	161	168	195	196	202	193	166	178	195
Operating Profit	143	135	141	108	117	105	128	116	101	89
Operating Margin	27.2%	26.0%	25.6%	19.0%	20.0%	18.8%	22.3%	22.0%	19.0%	16.6%
Net Profit	225	93	99	42	131	100	134	130	229	233
Net Margin	42.9%	17.9%	18.0%	7.4%	22.5%	17.9%	23.3%	24.8%	43.0%	43.5%
Free Cash Flow	213	117	39	48	105	122	163	131	105	81

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,448	4,255	4,666	4,788	4,362	4,368	4,000	3,592	3,517	3,740
Cash & Equivalents	140	13	7	12	5	7	7	5	14	7
Accounts Receivable	130	147	169	175	174	163	157	148	141	160
Goodwill & Int. Ass.	259	235	254	250	189	199	177	177	173	190
Total Liabilities	1,674	1,614	2,205	2,476	2,238	2,270	2,013	1,880	1,698	1,842
Accounts Payable	123	127	129	134	128	165	115	94	117	112
Long-Term Debt	1,473	1,417	2,002	2,270	2,030	2,020	1,727	1,685	1,481	1,622
Shareholder's Equity	2,772	2,639	2,460	2,310	2,122	2,096	1,985	1,710	1,817	1,896
D/E Ratio	0.53	0.54	0.81	0.98	0.96	0.96	0.87	0.99	0.82	0.86

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.1%	2.1%	2.2%	0.9%	2.9%	2.3%	3.2%	3.4%	6.4%	6.4%
Return on Equity	8.1%	3.4%	3.9%	1.8%	5.9%	4.7%	6.5%	7.1%	13.0%	12.5%
ROIC	5.3%	2.2%	2.3%	0.9%	3.0%	2.4%	3.4%	3.7%	6.8%	6.8%
Shares Out.	173.0	170.4	165.1	154.6	150.9	145.6	145.4	130.6	126.2	126.1
Revenue/Share	3.04	3.06	3.33	3.66	3.88	3.82	3.95	4.03	4.23	4.24
FCF/Share	1.23	0.68	0.24	0.31	0.70	0.84	1.12	1.00	0.83	0.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.