



PS Business Parks, Inc. (PSB)

Updated May 18th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$186	5 Year CAGR Estimate:	6.7%	Market Cap:	\$5.13 B
Fair Value Price:	\$186	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	06/14/2022
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	06/30/2022
Dividend Yield:	2.3%	5 Year Price Target	\$232	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

PS Business Parks, Inc. is a fully integrated, self-advised, and self-managed REIT that owns, operates, and acquires primarily multi-tenant industrial, flex, and office properties. The company owns and operates 25.1 million rentable square feet of commercial space in six states, comprising 96 parks and 652 buildings, along with two other joint ventures. PS Business Parks generates around \$440 million in annual rental revenues and is headquartered in Glendale, California.

On April 25th, 2022, Blackstone (NYSE:BX) agreed to buy PS Business Parks for \$187.50 per share in an all-cash transaction.

On May 2nd, 2022, PS Business Parks reported its Q1 results for the period ending March 31st, 2022. Rental income grew 4.44% to \$112.8 million. Higher rental revenues resulted from higher NOI and improved occupancy. Specifically, same-park NOI came in at \$74.1 million, representing a year-over-year increase of 7.7%, while occupancy improved from 93% to 96% year-over-year. Accordingly, core FFO/share came in at \$1.82, representing an increase of 8.9% compared to Q1-2021.

During the quarter, the company's leasing activity included closing deals for 1.7 million square feet with a weighted average cash rental growth rate of 10.7%. This is higher than the previous quarter's 6.1%. However, the company's average lease term stood at 3.5 years, compared to 3.6 years in the previous quarter, suggesting marginally lower cash flow visibility. Additionally, as of quarter-end, PSB had collected \$5.4 million of rent deferral repayment, representing 99.8% of the amounts scheduled to be repaid through March 31st, 2022.

Based on the company's rental growth rates, leasing agreements, and predictable revenues due to its multi-year contracts, we estimate that FY2022 FFO/share will land close to \$7.44.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/shr	\$4.24	\$5.15	\$4.72	\$4.76	\$5.17	\$5.83	\$6.47	\$6.47	\$6.51	\$6.67	\$7.44	\$9.27
DPS	\$1.76	\$1.76	\$2.00	\$2.20	\$3.00	\$3.40	\$3.80	\$4.20	\$4.20	\$8.80 ¹	\$4.20	\$5.62
Shares²	24.2	24.7	26.9	27.0	27.1	27.2	27.3	27.4	27.5	27.5	27.7	30.0

PS Business Parks has done a decent job over the past decade in terms of growing its revenues and underlying FFO. Over the past 5 years, FFO/share has grown by around 5.0% per annum. Despite concerns regarding the future demand for office spaces in a post-pandemic world, the company appears to have fully recovered from last year's hurdles. We continue to expect FFO/share growth of around 4.5% in the medium term, powered by the likelihood for the company to continue closing new leasing deals at higher rental rates, as was the case over FY2021. The recent results pointed to solid developments in rental growth rates on new leases and overall occupancy. PSB displays a robust dividend history, with no dividend cuts taking place since 1998. Since then, the company has quadrupled its DPS with substantial, double-

¹ Includes a \$4.60 special dividend related to the sale of various assets dispositions.

² Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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digit hikes, though with pauses in-between. Increases likely occur when the company feels it has reached a new profitability plateau. We estimate a DPS CAGR of 6% ahead, but consecutive annual hikes should not be expected.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	15.8	15.1	17.8	17.9	20.3	22.1	19.3	24.9	20.4	24.7	25.0	25.0
Avg. Yld.	2.6%	2.3%	2.4%	2.6%	2.9%	2.6%	3.0%	2.6%	3.2%	5.3%	2.3%	2.4%

PSB's valuation has remained rather stable over the past decade, with the stock hovering at an average P/FFO of around 18.9 during this time. The current multiple of 25 is elevated, but only due to the company getting acquired at a premium valuation. For the same reason, we have the ongoing multiple as the stock's fair multiple, as the stock is about to depart from the public markets near its current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	42%	34%	42%	46%	58%	58%	59%	65%	65%	132%	56%	61%

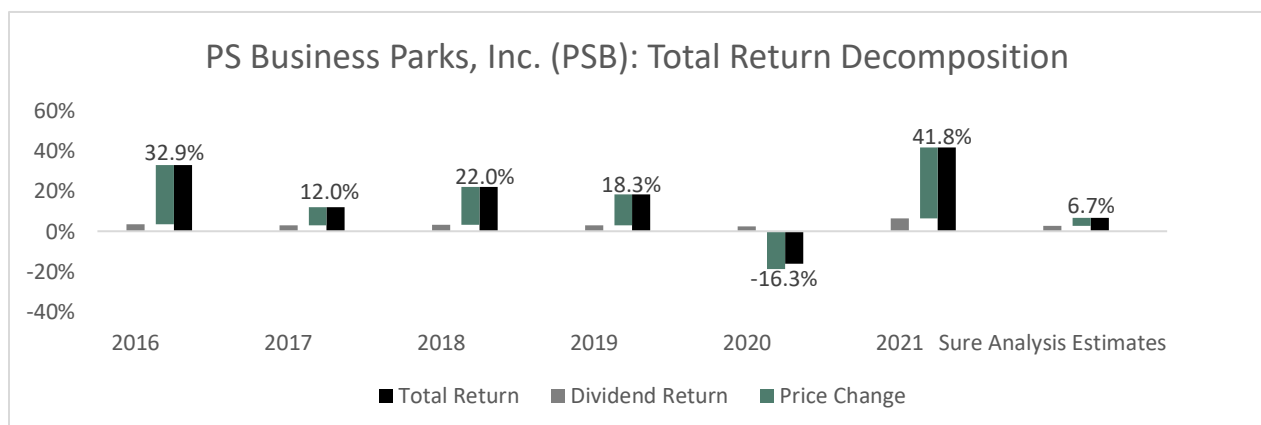
We consider PSB's current DPS as relatively safe. The company has been prudent with its dividend increases, resulting in retaining a healthy payout ratio, which currently stands at just around 56%. Hence, the dividend should remain covered even if cash flows were to come under pressure. PSB possesses several qualities, including a very diverse customer base. Its top 10 tenants account for just 10.0% of its annualized rental income. These tenants are also of the highest credit qualities, with its top 2 being the U.S. Government and Amazon.

PSB also boasts an A- corporate credit rating by S&P, featuring a fortress balance sheet with minimal long-term debt. The company funds its acquisition through issuing preferred stock, which currently trades with an average coupon (dividend) rate of 5.3%. These payouts are covered by around 6 times PSB's operating cash flows. We expect the company to perform relatively resilient during a recession, as was the case during the Great Financial Crisis, due to its leasing contracts having an average duration of around 3.5 years.

Final Thoughts & Recommendation

PSB has delivered satisfactory returns over the past few years, posting robust FFO and DPS growth. We anticipate annualized returns of 6.7% in the medium-term, powered by PSB's current yield, our growth expectations, and stable valuation assumptions. Accordingly, the stock would earn a hold rating. That said, investors' journey with PSB is going to be short-lived amid the announced acquisition about to close. Thus, total return projections are mostly non-meaningful.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	347	360	377	373	387	402	414	430	416	439
Gross Profit	233	245	250	252	264	280	289	302	290	308
Gross Margin	67.1%	68.1%	66.2%	67.5%	68.2%	69.6%	69.9%	70.1%	69.8%	70.2%
SG&A Exp.	9	5	14	14	15	13	12	14	15	19
D&A Exp.	109	109	110	105	99	94	94	100	92	93
Operating Profit	115	131	126	133	149	173	178	183	179	195
Operating Margin	33.1%	36.4%	33.3%	35.6%	38.6%	43.0%	42.9%	42.7%	43.1%	44.4%
Net Profit	89	103	174	130	128	155	227	175	174	449
Net Margin	25.7%	28.7%	46.2%	35.0%	33.1%	38.5%	54.8%	40.7%	41.8%	102.3%
Free Cash Flow	152	163	174	192	219	220	236	246	225	218

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,152	2,239	2,227	2,187	2,119	2,100	2,069	2,046	2,058	2,123
Cash & Equivalents	13	31	152	189	129	115	37	63	69	27
Accounts Receivable	5	5	3	2	2	2	1	1	2	2
Total Liabilities	538	324	319	326	309	210	85	85	82	129
Long-Term Debt	468	250	250	250	-	-	-	-	-	32
Shareholder's Equity	561	723	718	740	734	734	806	801	812	979
LTD/E Ratio	0.32	0.15	0.15	0.15	-	-	-	-	-	0.02

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.2%	4.7%	7.8%	5.9%	5.9%	7.3%	10.9%	8.5%	8.5%	21.5%
Return on Equity	15.6%	16.1%	24.1%	17.9%	17.4%	21.1%	29.5%	21.8%	21.5%	50.1%
ROIC	4.3%	4.9%	8.0%	6.1%	6.5%	8.4%	11.7%	8.9%	8.8%	22.4%
Shares Out.	24.2	24.7	26.9	27	27.1	27.2	27.3	27.4	27.5	27.6
Revenue/Share	14.27	14.49	13.96	13.79	14.23	14.67	15.08	15.62	15.08	15.87
FCF/Share	6.26	6.58	6.45	7.11	8.04	8.02	8.62	8.94	8.15	7.90

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

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