



# Duke Realty Corporation (DRE)

Updated July 30<sup>th</sup>, 2022 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$63	<b>5 Year CAGR Estimate:</b>	-2.6%	<b>Market Cap:</b>	\$24.3 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/13/2022 <sup>1</sup>
<b>% Fair Value:</b>	182%	<b>5 Year Valuation Multiple Estimate:</b>	-11.3%	<b>Dividend Payment Date:</b>	08/31/2022
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$59	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Sell

## Overview & Current Events

Duke Realty Corporation is a Real Estate Investment Trust (REIT). The Trust is the largest pure-play, domestic-only logistics REIT in the United States, specializes in the ownership, management, and development of high-quality, modern logistics real estate. Duke Realty was founded in 1972 by John Rosebrough, Phil Duke, and John Wynne. Its first development was in the Park 100 neighborhood in the northwest part of Indianapolis. In 1993, Duke Realty held an IPO on the New York Stock Exchange, raising \$310 million and is publicly traded on the NYSE under the symbol DRE and is listed on the S&P 500 Index. Duke Realty owns interests in 543 logistics properties encompassing 163.2 million square feet in 19 major logistics markets. These properties are primarily warehouse facilities with clear ceiling heights of 28 feet or more. The three largest markets by square feet were Indianapolis, Chicago, and Atlanta. Duke has a market capitalization of \$24.3 billion. The Trust has been paying a dividend since 1994. Over the last seven years, Duke has increased the dividend every year.

On July 27<sup>th</sup>, 2022, Duke Realty Corp. reported results for the second quarter of the fiscal year 2022. DRE generated \$285.3 million in revenue for the quarter vs. \$271.7 million in 2Q2021. This represents an increase of 5% year over year. For the six months of the fiscal year, total revenue is up 0.4% compared to the first six months of 2021. Net income growth year over year decreased by (41.7)%, from \$175.8 million in the second quarter of 2021 to \$102.5 million for 2Q2022. The year-over-year decrease is due to a lower gain in sales and an increase in general and administrative expenses. Core FFO was \$0.48 per diluted share for the second quarter of 2022, compared to \$0.44 per diluted share for the second quarter of 2021. This growth was primarily driven by rental rate growth. For the first six months of the year, FFO has grown 10.8% compared to the 2021 first six months.

The company management issued a 2022 earnings guidance for Core FFO of \$1.88 to \$1.94 per diluted share. We will use \$1.91 FFO per share, representing a 10.4% increase over 2021 results.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>FFO</b>	\$1.02	\$1.10	\$1.18	\$1.17	\$1.20	\$1.24	\$1.33	\$1.44	\$1.52	\$1.73	<b>\$1.91</b>	<b>\$2.68</b>
<b>DPS</b>	\$0.68	\$0.68	\$0.68	\$0.69	\$0.73	\$0.77	\$0.82	\$0.88	\$0.96	\$1.05	<b>\$1.12</b>	<b>\$1.50</b>
<b>Shares<sup>2</sup></b>	267.0	327.0	340.0	352.0	357.0	362.0	363.0	367.0	374.0	377.7	<b>378.0</b>	<b>378.0</b>

The main driver of FFO growth going forward will come from the management's pursuit of projects such as developing industrial properties and acquiring income-producing real estate properties. We expect Duke Realty to grow FFO at a 7% annual growth rate for the next five years, which will give us an FFO of \$2.68 per share in 2027. The expected growth rate is slightly lower than the Trust's five-year historical average growth rate of 8.9%.

<sup>1</sup> Ex-Dividend and Dividend Payment Dates are estimates.

<sup>2</sup> 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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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	13.6	13.7	17.1	18	22.1	22	19.5	24.1	26.3	37.7	<b>32.8</b>	<b>18.0</b>
Avg. Yld.	4.9%	4.5%	3.4%	3.3%	2.8%	2.8%	3.2%	2.5%	2.4%	1.6%	<b>1.8%</b>	<b>3.1%</b>

Currently, DRE shares trade hands at a premium. The ten-year historical average P/FFO is 21.4x; however, we consider the stock reasonably valued P/FFO of 18x. Thus, today's P/FFO of 32.8x indicates that the stock price is 82% overvalued to our fair price estimates, giving multiple headwinds of (11.3)% over the next five years. The current dividend yield is lower than the companies' ten-year and five-year dividend average of 3.1% and 2.5%, respectively.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	66.7%	61.8%	57.6%	59.0%	60.8%	62.1%	61.7%	61.1%	63.2%	60.7%	<b>59%</b>	<b>56%</b>

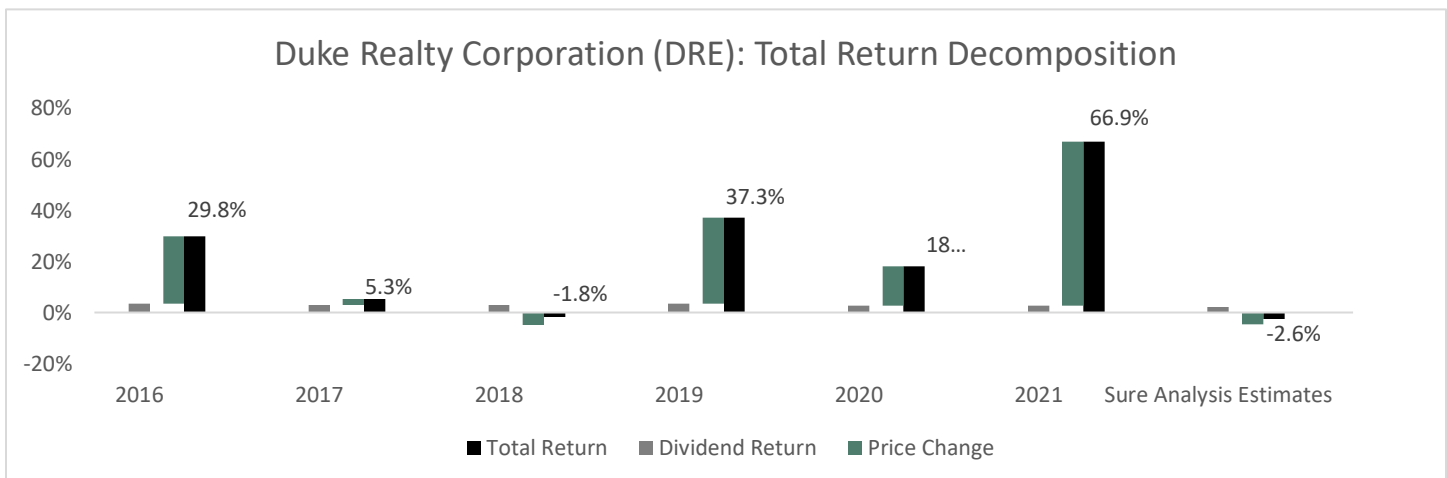
Duke Realty's competitive advantage is thanks to the robust demand for industrial properties and the continuation of project developments, as well as continuing to acquire income-producing real estate properties. During the Great Recession, DRE had a tremendous decline in FFO. In 2008 FFO was \$2.55 per share, and in 2009 it was \$0.06 per share. However, the Trust bounced back in 2010 and grew FFO 1950% to \$1.23 per share, but the Trust did have to cut its dividend in 2009 to compensate for the FFO loss. While the Trust had a rough time during the Great Recession, the COVID-19 pandemic was the opposite. The Trust grew FFO from \$1.44 per share in 2019 to \$1.52 per share in 2020, a 6% year-over-year growth.

DRE balance sheet is very healthy as of the end of FY2021. The Trust has interest coverage of 11.4 and a debt-to-equity ratio of 0.6, which are excellent ratios. The Trust currently has an S&P Credit rating of BBB+, an investment grade. The dividend payout ratio is low considering that DRE is a REIT. Thus, the dividend is very safe at this time.

## Final Thoughts & Recommendation

Duke Realty Corporation is a well-managed and growing domestic-only logistic REIT. The Trust features a robust acquisition pipeline and an exceptional track record of increasing its core FFO/share and DPS over the past ten years. We forecast annualized returns of (2.6)% for the next five years. Thus, we rate DRE shares as a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	1,045	969	1,047	792	731	781	948	974	993	1,106
<b>Gross Profit</b>	547	552	596	484	477	520	597	657	709	792
<b>Gross Margin</b>	52.3%	57.0%	56.9%	61.1%	65.3%	66.5%	63.0%	67.5%	71.4%	71.7%
<b>SG&amp;A Exp.</b>	46	43	49	59	55	55	56	61	62	70
<b>D&amp;A Exp.</b>	263	289	290	254	255	243	256	272	297	305
<b>Operating Profit</b>	151	148	193	174	175	187	224	251	273	344
<b>Operating Margin</b>	14.5%	15.3%	18.4%	21.9%	24.0%	23.9%	23.6%	25.8%	27.5%	31.1%
<b>Net Profit</b>	-74	191	244	615	312	1,634	384	429	300	853
<b>Net Margin</b>	-7.1%	19.7%	23.3%	77.7%	42.7%	209.3%	40.5%	44.1%	30.2%	77.1%
<b>Free Cash Flow</b>	299	436	444	387	457	450	484	506	566	642
<b>Income Tax</b>	0	-5	-1	-4	-1	0	9	9	-5	19

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	7,560	7,753	7,755	6,896	6,772	7,388	7,804	8,421	9,111	10,446
<b>Cash &amp; Equivalents</b>	34	19	18	23	13	68	18	111	6	70
<b>Accounts Receivable</b>	143	144	136	136	98	112	124	150	169	186
<b>Inventories</b>	31	57	725	46	1,324	18	1	18	68	145
<b>Goodwill &amp; Int. Ass.</b>	267	237	191	151	79	89	108	97	91	84
<b>Total Liabilities</b>	4,934	4,708	4,875	3,691	3,279	2,814	3,091	3,340	3,877	4,307
<b>Accounts Payable</b>	85	69	69	55	44	55	92	69	62	107
<b>Long-Term Debt</b>	4,446	4,254	4,413	3,320	2,908	2,423	2,659	2,915	3,385	3,689
<b>Shareholder's Equity</b>	1,966	2,566	2,860	3,182	3,466	4,533	4,658	5,018	5,163	6,044
<b>LTD/E Ratio</b>	1.72	1.41	1.54	1.04	0.84	0.53	0.57	0.58	0.66	0.61

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	-1.0%	2.5%	3.1%	8.4%	4.6%	23.1%	5.1%	5.3%	3.4%	8.7%
<b>Return on Equity</b>	-3.8%	8.4%	9.0%	20.4%	9.4%	40.9%	8.4%	8.9%	5.9%	15.2%
<b>ROIC</b>	-1.1%	2.7%	3.3%	8.9%	4.8%	24.4%	5.3%	5.6%	3.6%	9.2%
<b>Shares Out.</b>	267.0	327.0	340.0	352.0	357.0	362.0	363.0	367.0	374.0	377.7
<b>Revenue/Share</b>	3.90	2.97	3.07	2.25	2.05	2.16	2.61	2.65	2.65	2.88
<b>FCF/Share</b>	1.12	1.33	1.31	1.10	1.28	1.24	1.33	1.38	1.51	1.68

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

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