



Duke Realty Corporation (DRE)

Updated October 30th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	1.2%	Market Cap:	\$21.6 B
Fair Value Price:	\$38	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/16/2021
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date:	11/30/2021
Dividend Yield:	2.0%	5 Year Price Target	\$53	Years Of Dividend Growth:	7
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	9.8%

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 \$21.6 billion. The Trust has been paying a dividend since 1994. Over the last seven years, Duke has been increasing the dividend every year.

On October 27, 2021, Duke Realty Corp. reported results for the third quarter of 2021. The DRE generated \$280.4 million in revenue for the quarter vs. \$262 million in revenue for 3Q2020. This represents an increase of 7% year over year. The first nine months of the fiscal year had even better results. Duke Realty has grown revenue by 15.7% compared to the first nine months of Fiscal Year (FY) 2020. Net income growth year over year increased by 588%, from \$71.8 million in the third quarter of 2020 to \$494.8 million for 3Q2021. On a per-share basis, the Company earned an FFO (Funds From Operation) of \$0.46 per share for the quarter compared to \$0.39 per share last year's third quarter. For the first nine months, FFO per share reported was \$1.29 per share vs. only \$1.11 per share for the first nine months of 2020. Net income per share for the quarter increased due to higher gains on property sales, improved operating results, and lower losses on debt extinguishment. The increased FFO was primarily driven by enhanced in-service occupancy, rental rate growth, leased new developments, and lower debt extinguishment losses.

The Company also announces a dividend increase from \$0.255 per share per quarter to \$0.28 per share per quarter. This represents a dividend increase of 9.8%.

The DRE issued revised guidance for net income of \$2.15 to \$2.29 per share, compared to the previous range of \$2.13 to \$2.39 per share. DRE also issued revised guidance for FFO of \$1.71 to \$1.75 per share, compared to the previous range of \$1.62 to \$1.68 per share. Thus, we will use the midpoint FFO of \$1.72 per share as an estimate.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	\$1.15	\$1.02	\$1.10	\$1.18	\$1.17	\$1.20	\$1.24	\$1.33	\$1.44	\$1.52	\$1.72	\$2.41
DPS	\$0.68	\$0.68	\$0.68	\$0.68	\$0.69	\$0.73	\$0.77	\$0.82	\$0.88	\$0.96	\$1.12	\$1.50
Shares¹	260	267	327	340	352	357	362	363	367	374	378.0	378.0

The main driver of FFO growth going forward will come from management pursue of projects such as the development of industrial properties and continuing to acquire income-producing real estate properties. We expect Duke Realty to

¹ Share count is in millions.

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grow FFO at a 7% annual growth rate for the next five years, which will give us an FFO of \$2.41 per share in 2026. The expected growth rate is slightly lower than the Trust's five-year historical average growth rate of 7.5%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	10.5	13.6	13.7	17.1	18	22.1	22	19.5	24.1	26.3	32.7	22.0
Avg. Yld.	5.6%	4.9%	4.5%	3.4%	3.3%	2.8%	2.8%	3.2%	2.5%	2.4%	2.0%	2.8%

Currently, DRE shares trade hands at a premium. The ten-year historical average P/FFO is 18.7; however, we consider to be reasonably valued P/FFO of 22. Thus, today's P/FFO of 32.7 indicates that the stock price is 49% overvalued to our fair price estimates, giving multiple headwinds of (7.6)%. The current dividend yield is lower than the companies' ten-year and five-year dividend average of 3.5% and 2.7%, respectively.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	59.1%	66.7%	61.8%	57.6%	59.0%	60.8%	62.1%	61.7%	61.1%	63.2%	65%	62%

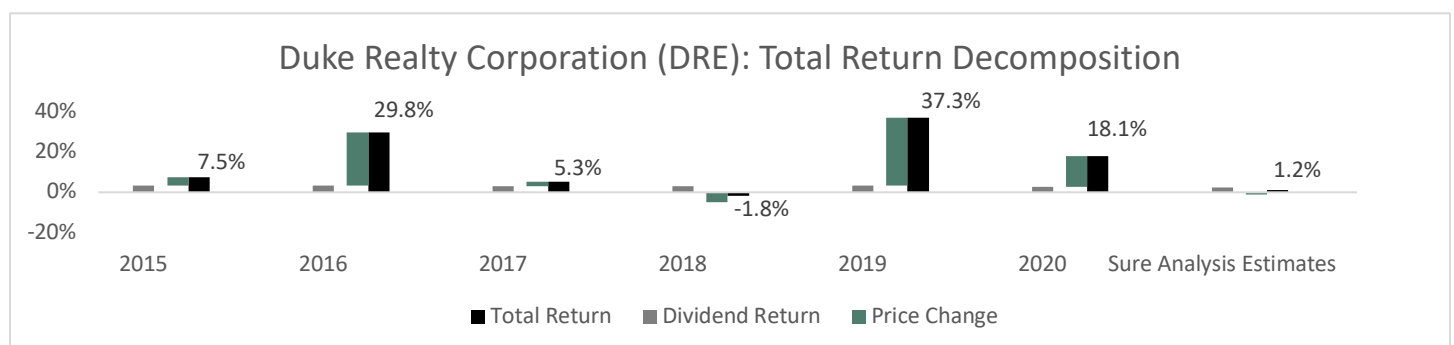
Duke Realty's competitive advantage is thanks to the robust demand for industrial properties and the continuation of project developments, as well as continuing to acquire income-producing real estate properties. During the Great Recession, DRE had a tremendous decline in FFO. In 2008 FFO was \$2.55 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 Q3. The Trust has interest coverage of 6.6 and a debt to equity ratio of 0.7, which are excellent ratios. The Trust currently has an S&P Credit rating of BBB+, which is 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 1.2% for the next five years, caused by the current price's high valuation. Thus, we rate DRE shares as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,208	1,045	969	1,047	792	731	781	948	974	993
Gross Profit	502	547	552	596	484	477	520	597	657	709
Gross Margin	41.6%	52.3%	57.0%	56.9%	61.1%	65.3%	66.5%	63.0%	67.5%	71.4%
SG&A Exp.	43	46	43	49	59	55	55	56	61	62
D&A Exp.	267	263	289	290	254	255	243	256	272	297
Operating Profit	153	151	148	193	174	175	187	224	251	273
Operating Margin	12.6%	14.5%	15.3%	18.4%	21.9%	24.0%	23.9%	23.6%	25.8%	27.5%
Net Profit	96	(74)	191	244	615	312	1,634	384	429	300
Net Margin	7.9%	-7.1%	19.7%	23.3%	77.7%	42.7%	209%	40.5%	44.1%	30.2%
Free Cash Flow	338	299	436	444	387	457	450	484	506	566
Income Tax	(0)	(0)	(5)	(1)	(4)	(1)	(0)	9	9	(5)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7,004	7,560	7,753	7,755	6,896	6,772	7,388	7,804	8,421	9,111
Cash & Equivalents	214	34	19	18	23	13	68	18	111	6
Accounts Receivable	128	143	144	136	136	98	112	124	150	169
Inventories	56	31	57	725	46	1,324	18	1	18	68
Goodwill & Int. Ass.		267	237	191	151	79	89	108	97	91
Total Liabilities	4,225	4,934	4,708	4,875	3,691	3,279	2,814	3,091	3,340	3,877
Accounts Payable	56	85	69	69	55	44	55	92	69	62
Long-Term Debt	3,810	4,446	4,254	4,413	3,320	2,908	2,423	2,659	2,915	3,385
Shareholder's Equity	1,921	1,966	2,566	2,860	3,182	3,466	4,533	4,658	5,018	5,163
D/E Ratio	1.40	1.72	1.41	1.54	1.04	0.84	0.53	0.57	0.58	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.3%	-1.0%	2.5%	3.1%	8.4%	4.6%	23.1%	5.1%	5.3%	3.4%
Return on Equity	4.8%	-3.8%	8.4%	9.0%	20.4%	9.4%	40.9%	8.4%	8.9%	5.9%
ROIC	1.4%	-1.1%	2.7%	3.3%	8.9%	4.8%	24.4%	5.3%	5.6%	3.6%
Shares Out.	260	267	327	340	352	357	362	363	367	374
Revenue/Share	4.65	3.90	2.97	3.07	2.25	2.05	2.16	2.61	2.65	2.65
FCF/Share	1.30	1.12	1.33	1.31	1.10	1.28	1.24	1.33	1.38	1.51

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

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