

First Read

Post Properties Inc. Still Trailing the Pack

2Q FFO of \$0.74 versus UBSe \$0.69 and Consensus \$0.72

The beat-and-raise quarter, along with a \$100m potential share buyback, could provide modest support for the stock in the near-term (after shares have meaningfully underperformed the Multifamily peer group ytd and in the last 12 months). 2Q15 core FFO beat us on better SSNOI growth and lower than expected G&A. Because of the beat management raised FFO guidance 1% to \$2.90-2.96 from \$2.85-\$2.95 (UBSe \$2.88 and consensus \$2.92). While FFO guidance was raised, the SSNOI growth outlook was not changed (still at a subsector sector low +1.3%-2.4%). While 2Q saw some pick-up in fundamentals, PPS appears to still be facing tougher supply pressures than peers.

Atlanta continues to look good; elsewhere, not so good

In 2Q15, SSREV grew +2.8% y/y (UBSe +2.3%) while SSEX rose +2.6% (UBSe +4.0%), resulting in SSNOI growth of +2.9% (UBSe +0.9%). Average rents grew +2.2% with y/y occupancy +10bps to 96%. Atlanta (largest market at 27% of NOI) posted y/y SSREV growth of +5.2% (vs. +5.3% in 1Q) while its other largest markets of DC (+0.9%), Dallas (+3.3%) and Tampa (+3.1%) continue to show SSREV below national averages. Houston & Austin are relatively small markets (each 3-4% of NOI), but SSREV results for both looked weak at -2.4% and +0.2%, respectively.

Share buyback probably helps provide a floor in the stock

PPS announced a \$100m potential share buyback in the next year under its previously authorized program. While PPS didn't specify how it would fund such a program, we expect it could be financed from asset sales or the line of credit, as leverage is lowest in the Multifamily sector at 29% debt-to-gross assets. We think this buyback should help put a near-term floor in Post's stock, which currently trades at a 10% discount to our 1-year forward NAV estimate (vs. 8% discount for Multifamily).

Valuation: Neutral rating and \$61 target price

Our price target is based on our 1-year forward NAV. We will revisit estimates following tomorrow's call.

Equities

Americas
Real Estate

12-month rating **Neutral**

12m price target **US\$61.00**

Price **US\$57.31**

RIC: PPS.N BBG: PPS US

Trading data and key metrics

52-wk range US\$63.34-50.94

Market cap. US\$3.14bn

Shares o/s 54.7m (COM)

Free float 100%

Avg. daily volume ('000) 99

Avg. daily value (m) US\$5.6

Common s/h equity (12/15E) US\$1.27bn

P/BV (12/15E) 0.9x

EPS (UBS, diluted) (US\$)

	12/15E	
	UBS	Cons.
Q1	0.37	0.35
Q2E	0.35	0.34
Q3E	0.38	0.35
Q4E	0.43	0.36
12/15E	1.53	1.38
12/16E	1.61	1.43
12/17E	1.56	1.52

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Highlights (US\$)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
FFOPS	2.84	3.01	2.44	2.88	3.07	3.27	3.48	3.67
AFFOPS	1.90	2.02	2.41	2.54	2.65	2.83	3.01	3.18
NAV per share (UBS, US\$)	52.65	55.55	59.43	60.64	63.56	-	-	-
DPS (UBS, US\$)	0.97	1.24	1.56	1.72	1.87	2.01	2.18	2.35
EPS (UBS, US\$)	0.91	1.66	0.64	1.53	1.61	1.56	1.56	1.74
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/FFO (UBS) x	16.8	15.8	21.5	19.9	18.7	17.5	16.5	15.6
P/AFFO (UBS) x	25.1	23.5	21.7	22.5	21.6	20.3	19.1	18.0
Prem/(disc) to NAV ps %	(9.2)	(14.6)	(11.9)	(5.5)	(9.8)	-	-	-
Net dividend yield %	2.0	2.6	3.0	3.0	3.3	3.5	3.8	4.1
PE (UBS) x	52.5	28.6	81.5	37.4	35.6	36.7	36.8	33.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$57.31 on 03 Aug 2015 16:42 EDT

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Forecast returns

Forecast price appreciation	+6.4%
Forecast dividend yield	3.1%
Forecast stock return	+9.5%
Market return assumption	5.7%
Forecast excess return	+3.8%

Statement of Risk

Like all real estate companies, PPS is exposed to the cost and availability of debt and equity capital. Continued job losses and erosion in consumer spending could also further weaken operating fundamentals. Although Post has made progress in diversifying the portfolio, the company continues to be highly concentrated in Atlanta (24% of NOI) and Dallas (19%), two markets that will likely continue to be negatively affected by high levels of supply over the next few years. Further, Post's high-priced apartments, combined with exposure to low-barrier markets, make Post especially vulnerable to new supply and homeownership.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Nick Yulico, CFA; Ross T. Nussbaum; Trent Trujillo.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Post Properties Inc. ¹⁶	PPS.N	Neutral	N/A	US\$56.94	31 Jul 2015

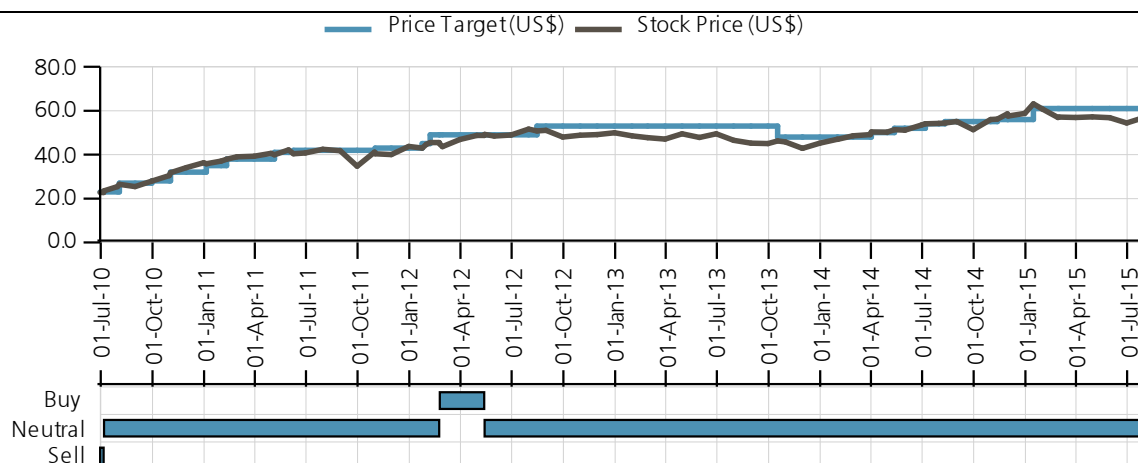
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Post Properties Inc. (US\$)



Source: UBS; as of 31 Jul 2015

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