Prologis (PLD)

Updated October 21st, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$105	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$77.5B
Fair Value Price:	$83	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	12/18/2020
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	12/31/2020
Dividend Yield:	2.2%	**5 Year Price Target**	$134	**Years Of Dividend Growth:**	9
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	9.4%

Overview & Current Events

Prologis is by far the largest industrial U.S. REIT owning approximately 965 million square feet of real estate in 19 countries. For context, the second-largest U.S. REIT in the sector is Public Storage (PSA), with a market cap of around $40 billion, almost half that of Prologis. The company has a diversified rental collection base, comprising of more than 5,500 individual tenants. The company was founded in 1983 and is based in San Francisco, California.

On October 20th, Prologis reported its Q3 results for the period ending September 30th, 2020. Revenues grew by 14.6% to reach $1.08 billion, while FFO/share declined by 7.2% to $0.90 due to disproportional share issuance to rental income growth. Overall operations remained robust, with Prologis closing the quarter at a 95.6% occupancy rate. Because the company's top clients include Amazon, FedEx, DHL, UPS, and various other businesses essential to sustain the economy through the necessary daily logistics, Prologis was hardly affected by the pandemic compared to REITs. Further, investors should not worry about the temporary FFO/share reduction since share issuance is a common way for REITs to grow their property base as they distribute the majority of their earnings to shareholders. Once the raised funds start to produce rental income post-property-acquisitions, this figure should significantly grow. To further reassure investors of the company's financial resiliency, management narrowed its FY2020 guidance, projecting core FFO/share of $3.76 to $3.78, suggesting a massive year-over-year growth of 13.8%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO/Share	-$4.44	$1.10	$1.20	$1.76	$1.88	$2.23	$2.57	$2.81	$3.03	$3.31	***$3.77***	***$6.07***
DPS	$1.25	$1.06	$1.12	$1.12	$1.32	$1.52	$1.68	$1.76	$1.92	$2.12	***$2.32***	***$3.65***
Shares[2]	219.5	370.5	459.9	486.1	499.6	521.2	526.1	530.4	567.4	630.6	**765.8**	**1100.0**

FFO/share CAGR over the past five years has been around 11.1%, while DPS CAGR over the same period has been about 7.9%. Considering that the company's performance remains robust, continuing to acquire and develop essential logistics properties globally, we expect medium-term FFO/share growth of 10%, incorporating a slight slowdown in growth over this period. During the quarter, Prologis completed $2.4 billion of debt refinancing at a weighted average rate of 1.4 percent and a weighted average term of 12 years. Taking advantage of its robust results to borrow at all-time low rates, we are confident that Prologis could grow even faster. Still, we remain prudent. Additionally, we estimate a medium-term DPS CAGR of 9%. We believe that this is a reasonable growth rate supported by solid FFO/share growth, a comfortable payout ratio, and management's latest confident DPS increase by 9.4%.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	21.6	17.6	15.2	22.5	18.1	21.2	25.0	27.1	16.6	26.8	***27.8***	***22.0***
Avg. Yld.	2.6%	2.8%	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	***2.2%***	***2.7%***

[1] Estimated dates based on PLD's past dividend dates

[2] Share count is in millions.

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Over the past decade, Prologis has retained relatively reasonable valuation multiples considering its rapid growth, mainly ranging from 15 to 25 its underlying funds from operations. However, because COVID-19 adversely affected various REITs, investors quickly rushed to Prologis' secured cash flows, expanding this figure to a decade high ~28. Safety and growth come at a great price, however, resulting in shares yielding just 2% and potentially limiting the company's future tangible returns.

Because of the company's excellent metrics, industrial properties being one of the most resilient real estate sectors during the pandemic, and growth being a scarce feature in REITs nowadays, we expect the company's valuation to remain on the higher end of its usual range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	59.0%	53.50%	58.3%	60.7%	70.1%	68.1%	65.3%	62.6%	63.3%	64.0%	61.5%	***60.2%***

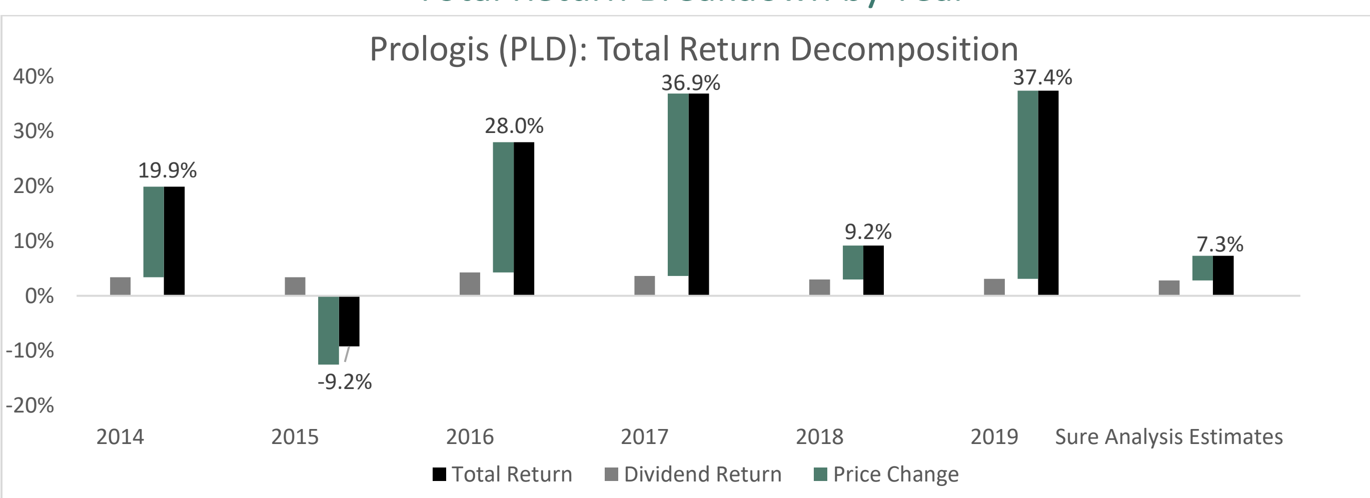
Prologis has a healthy customer base consisting of huge enterprises providing essential logistics services that are booming during the pandemic. Its occupancy rate remains strong considering the overall sector, while the company's guidance points towards another year of double-digit growth, despite the challenges.

The company's payout ratio is quite flexible at around 60%, which could easily support a potential acceleration in DPS growth. Additionally, the company's recent refinancing makes for a noteworthy growth catalyst. Since a substantial expense for REITs is interest payment due to their continuous debt issuance, lowering these outflows should further boost the company's core FFO/share going forward. Considering that creditors have little to demand based on Prologis' pristine financials, coupled with the company being the largest U.S. REIT in the sector, we find it unlikely that other REITs could provide more competitive rental rates. On the downside, the REIT did reduce its dividend during The Great Recession so it is not fully recession resistant in all environments.

Final Thoughts & Recommendation

In our view, Prologis is an attractive investment both in terms of income growth. Some income-oriented investors may find its relatively low yield unappealing due to the lack of higher tangible returns. While Prologis may indeed lack in that regard, we can see the stock delivering solid ~7% returns, despite its arguably rich valuation. Investors should expect the majority of such returns through capital gains, partially offset by a potential valuation contraction.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	840	1422	1961	1750	1761	2197	2533	2618	2804	3331
Gross Profit	600	1018	1405	1209	1215	1544	1836	1893	2047	2412
Gross Margin	71.5%	71.6%	71.7%	69.1%	69.0%	70.3%	72.5%	72.3%	73.0%	72.4%
SG&A Exp.	166	195	228	229	229	217	222	231	239	267
D&A Exp.	357	604	767	664	642	880	931	879	947	1140
Operating Profit	123	257	427	304	320	380	668	771	847	992
Op. Margin	14.7%	18.0%	21.8%	17.4%	18.2%	17.3%	26.4%	29.5%	30.2%	29.8%
Net Profit	-1270	-153	-40	343	636	869	1210	1652	1649	1573
Net Margin	-151%	-10.8%	-2.0%	19.6%	36.1%	39.6%	47.8%	63.1%	58.8%	47.2%
Free Cash Flow	212	151	383	402	816	1033	1417	1687	1804	2264
Income Tax	-30	2	4	107	-26	23	55	55	63	75

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	14903	27724	27310	24572	25775	31395	30250	29481	38418	40032
Cash & Equivalents	38	176	101	491	351	264	807	447	344	1089
Acc. Receivable	59	148	171	108	103	90	111	85	107	86
Goodwill & Int.	---	---	---	---	---	434	268	202	451	314
Total Liabilities	7382	13268	13537	10396	10591	12974	11792	10775	12617	13960
Accounts Payable	---	639	612	564	628	713	556	703	761	705
Long-Term Debt	6506	11382	11791	9011	9337	11627	10608	9413	11090	11906
Total Equity	7155	13079	12487	13611	13897	14590	14913	15562	22229	22584
D/E Ratio	0.87	0.83	0.90	0.66	0.67	0.79	0.71	0.60	0.50	0.53

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-12%	-0.7%	-0.1%	1.3%	2.5%	3.0%	3.9%	5.5%	4.9%	4.0%
Return on Equity	-26%	-1.5%	-0.3%	2.6%	4.6%	6.1%	8.2%	10.8%	8.7%	7.0%
ROIC	-12%	-0.8%	-0.2%	1.4%	2.7%	3.2%	4.1%	5.8%	5.1%	4.2%
Shares Out.	220	372	462	492	506	534	547	552	590	655
Revenue/Share	3.83	3.82	4.24	3.56	3.48	4.11	4.63	4.74	4.75	5.09
FCF/Share	0.97	0.41	0.83	0.82	1.61	1.93	2.59	3.05	3.06	3.46

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