Prologis (PLG)

Updated January 30th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$76.3B
Fair Value Price:	$87	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	03/13/2021
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.4%	**Dividend Payment Date:**	03/31/2021
Dividend Yield:	2.3%	**5 Year Price Target**	$128	**Years Of Dividend Growth:**	7
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 976 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 January 26th, 2021, Prologis reported its Q4 and FY2020 results for the period ending December 31st, 2020. Quarterly revenues grew by 36.46%, reaching $987 million, while FFO/share declined by 13% to $0.95 due to disproportional share issuance to rental income growth. Despite the overall challenges during the year as a result of the ongoing pandemic, the company's operations remained robust, closing the year at a 95.8% 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 has hardly been affected by the pandemic compared to commercial or retail REITs. Prologis' debt as a percentage of its total market cap stood at a healthy 20.0%, while the company's weighted average borrowing was just 2.0%, showcasing the ability of its resilient financials to attract cheap financing. Finally, the weighted average remaining lease term stands at 9.7 years. Management announced its FY2021 guidance, projecting core FFO/share of $3.88 to $3.98, suggesting a year-over-year growth of around 4.0%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/Share	$1.10	$1.20	$1.76	$1.88	$2.23	$2.57	$2.81	$3.03	$3.31	$3.80	***$3.95***	***$5.80***
DPS	$1.06	$1.12	$1.12	$1.32	$1.52	$1.68	$1.76	$1.92	$2.12	$2.32	***$2.42***	***$3.39***
Shares[2]	370.5	459.9	486.1	499.6	521.2	526.1	530.4	567.4	630.6	754.4	***800***	***1400.0***

Over the past five years, FFO/share CAGR has been around 9.0%, while DPS CAGR over the same period has been about 7.6%. Despite the fact that the company's performance remains robust, continuing to acquire and developing essential logistics properties globally, we are lowering our expected medium-term FFO/share growth from 10% to 8.0% to reflect management's relatively humble guidance for next year's results. Additionally, we estimate an FY2021 DPS of ~$2.42, in line with FFO/share growth, and a medium-term CAGR of 7%, assuming the company maintains a comfortable payout ratio. Despite our prudent estimates, we remain confident in Prologis' ability to grow in the medium term. The REIT features some of the most attractive financials and metrics amongst its peers. While growth could end up being higher than our estimates due to Prologis' dirty cheap financing, we remain prudent.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	25.0	29.1	22.7	20.0	21.16	17.5	20.8	18.9	28.1	26.3	***26.1***	***22.0***
Avg. Yld.	2.8%	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	***2.3%***	***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 the high 20s during FY2020. Safety and growth come at a high price, and as a result, the stock is currently trading at 26.1 times its forward FFO/share. Despite the company's excellent metrics and industrial properties being one of the most resilient real estate spaces during the ongoing pandemic, we believe that shares are likely to undergo a valuation compression to around 22X FFOs, returning around its decade average. This multiple should reflect the company's growth prospects and its unique qualities, at a more reasonable price level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

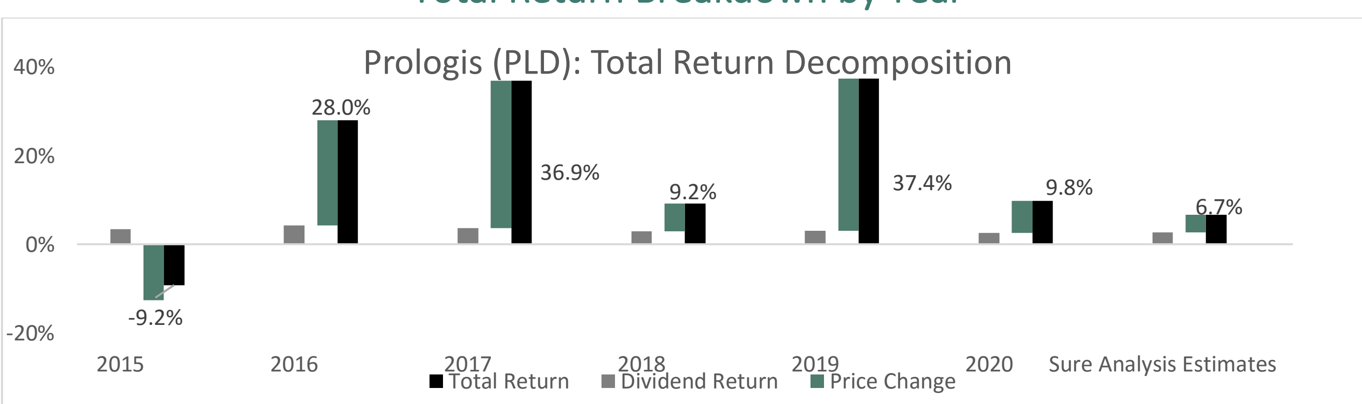
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	96.4%	93.3%	63.6%	70.2%	68.2%	65.4%	62.6%	63.4%	64.0%	61.1%	61.3%	58.5%

Prologis is one of the safest choices in REITs during this period of uncertainty in real estate. It features a healthy customer base consisting of huge enterprises that provide essential logistics services during the pandemic. Its occupancy rate remains profoundly strong considering the overall sector, and management's guidance points towards another year of growth, though a more humble one. Further, the company's payout ratio is quite flexible at around 60%, which could easily support a potential acceleration in DPS growth, let alone comfortably sustaining the current dividend if any hurdles were to arise. 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 demands based on Prologis' pristine financials, coupled with the company being the largest U.S. REIT in the sector, we find it incredibly unlikely that other REITs could provide more competitive rental rates as well.

Final Thoughts & Recommendation

Investors looking to buy into a growing REIT with a sound tenant base have limited options nowadays. In our view, Prologis is a very attractive investment both in terms of growth and a margin of safety. However, due to the stock's expanded valuation, income-oriented investors may find its relatively low yield unappealing. Additionally, due to management's humble guidance and the potential for a valuation compression, the stock's annualized total return prospects have been reduced to around 6.7%. We can't ignore the fact that Prologis features great qualities, and the stock could be an attractive dividend growth option. Still, at its current price levels, it is modestly overpriced, thus earning a hold recommendation from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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