Equity Residential (EQR)

Updated June 30th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$29.1B
Fair Value Price:	$61	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/24/2021[1]
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	10/09/2021
Dividend Yield:	3.1%	**5 Year Price Target**	$82	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.2%

Overview & Current Events

Equity Residential is one of the largest U.S. publicly-traded owners and operators of high-quality rental apartment properties with a portfolio primarily located in urban and dense suburban communities. The trust's properties are located in affluent areas around Boston, New York, Washington, D.C., Southern California, San Francisco, Seattle, and Denver. Specifically, it owns or has investments in 304 properties consisting of 77,889 apartment units. Equity Residential generates around $2.4 billion in annual revenues and is headquartered in Chicago, Illinois.

On April 27th, 2021, Equity Residential reported its Q1 results for the quarter ended March 31st, 2021. The trust's performance continues to reflect the significant impact of the pandemic. Revenues declined by 12.4% to $597.6 million YoY, seeing lower renewal rates and lower pricing. This was offset by Orange County and San Diego remaining the real standouts in terms of performance, which they should continue to benefit as the state of California opens back up and travel and leisure activity picks up. Amid increased corporate overhead, FFO declined by 22.8% to $258.3 million, while on a per-share basis, the trust saw a decline of 21.8% to $0.68.

The first quarter's results were not that pleasing on paper, but the trust continues to see substantial signs of improvement as cities begin to reopen and affluent renters return. For example, on April 22nd, physical occupancy stood at 96%, suggesting a 160 basis point improvement YTD. Further, pricing has seen an award trend YTD as well, on track to cross last year's rates by next quarter if sustained.

Management increased its guidance to reflect a faster-than-expected recovery, seeing FY2021 FFO/ share at $2.70-$2.80 (previously $2.60-$2.80). Due to the residential market indeed continuing to improve as of writing this report, we have incorporated the higher-end of management's guidance in our calculations. We anticipate FY2021 FFO/share of $2.79, in line with consensus estimates.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.55	$3.28	$2.46	$3.15	$3.64	$3.09	$3.28	$3.27	$3.53	$3.33	***$2.79***	***$3.73***
DPS	$1.58	$1.78	$1.85	$2.00	$2.21	$10.02[2]	$2.02	$2.16	$2.27	$2.41	***$2.41***	***$3.00***
Shares[3]	294.9	302.7	354.3	361.2	363.5	365.0	367.0	368.1	370.5	371.8	***372.0***	***350.0***

Equity residential properties are located in some of America's most affluent markets, which results in relatively robust rental collections due to the high quality of the trust's tenants. Additionally, these locations have consistently seen increasing pricing trends. We forecast FFO/share CAGR of around 6% in the medium-term, following the strong rebound in residential occupancy and overall pricing. The trust had slashed its dividend back in the great financial crisis. In 2016, the base rate dividend was "cut" again due to the trust divesting some of its non-core assets and paying shareholders a massive dividend with the proceeds. Since then, the dividend has grown annually, with the latest increase at 6.2%. We forecast DPS growth at a slowed down 4.5% going forward, remaining prudent before FFOs start catching up.

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1 Estimated dates based on past dividend dates

2 Includes $8.00 of special dividends amid sale of non-core assets.

3 Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	23.5	18.3	24.4	20.0	20.6	21.7	19.8	19.3	23.8	16.8	***28.0***	***22.0***
Avg. Yld.	2.6%	3.0%	3.1%	3.2%	2.9%	19.4%	3.1%	3.4%	2.7%	4.3%	***3.1%***	***3.7%***

Due to the stable performance of Equity Residential over the past decade, its shares have traded at a consistent valuation multiple around 20 times the underlying FFOs. While the trust shared more optimistic guidance than expected, the stock has recently rallied at levels that are incompatible with the current financials, trading at a record 28 times its forward FFOs. We expect a significant valuation multiple compression to the low 20s, back towards its historical average. Consequently, we also expect the stock's yield to appreciate to higher levels following such a correction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	62%	54%	75%	63%	61%	421%	62%	66%	64%	72%	***86%***	***80%***

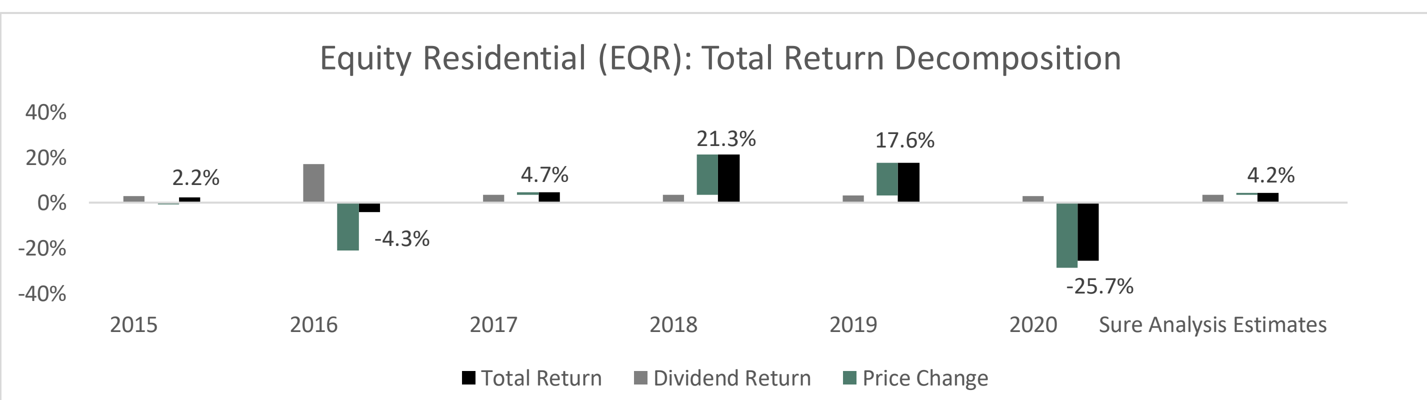
Considering that the trust had cut its dividend during the Great Financial Crisis, the fact that its payout ratio approaches higher levels than its historical ones, and the trust not increasing its DPS moving into 2021 as it usually does, the dividend cannot be blindly trusted. On the other hand, the trust enjoys several qualities, such as having its properties located in an attractive job market, translating into strong pricing. The trust has also showcased average rental collections of 97% throughout the pandemic. Still, its financials have yet to recover to their pre-COVID levels, as the trust was forced to reduce its rents to maintain said high occupancy.

Overall, the trust operates in a highly competitive market. However, management's proven expertise should partially offset this risk. A prolonged recession in which individuals see their salaries declining could easily damage the trust's performance following reduced rents, poor rental collections, and possible move-outs to cheaper areas.

Final Thoughts & Recommendation

Equity Residential has produced decent returns over the years, though its FFOs have recently been under pressure as the trust has reduced rents to sustain higher occupancy levels. Simultaneously, investors have pushed the stock's valuation multiple at levels that are inconsistent with its historical ones and non-reflective of this year's expected performance, despite the improving outlook in the residential market. Overall, we expect annualized returns of around 4.2% in the medium-term, powered by our estimated growth rates but offset by the possibility for significant valuation headwinds. Hence, we assign a hold rating to Equity Residential.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,525	1,748	2,388	2,615	2,745	2,426	2,471	2,578	2,701	2,572
Gross Profit	956	1,122	1,553	1,731	1,840	1,620	1,645	1,698	1,792	1,655
Gross Margin	62.7%	64.2%	65.1%	66.2%	67.0%	66.8%	66.6%	65.9%	66.4%	64.4%
SG&A Exp.	44	47	62	51	65	58	52	54	53	48
D&A Exp.	664	685	1,013	759	766	706	744	786	843	833
Operating Profit	407	514	512	922	1,009	856	849	859	909	786
Operating Margin	26.7%	29.4%	21.5%	35.2%	36.8%	35.3%	34.4%	33.3%	33.6%	30.6%
Net Profit	894	842	1,831	631	870	4,292	603	658	970	914
Net Margin	58.6%	48.2%	76.7%	24.1%	31.7%	177%	24.4%	25.5%	35.9%	35.5%
Free Cash Flow	793	885	729	1,133	1,171	1,036	1,062	1,163	1,274	1,109
Income Tax	1	1	1	1	1	2	0	1	(2)	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	16659	17201	22835	22951	23110	20704	20571	20394	21173	20287
Cash & Equivalents	384	613	54	40	42	77	51	47	46	43
Total Liabilities	10796	9674	11989	12243	12414	10243	10097	9995	10628	9523
Accounts Payable	35	38	119	154	187	147	115	102	94	107
Long-Term Debt	9721	8529	10766	10845	10921	8987	8957	8818	9037	8044
Shareholder's Equity	5469	7240	10457	10318	10433	10192	10205	10136	10278	10488
D/E Ratio	1.71	1.17	1.02	1.05	1.04	0.88	0.87	0.87	0.88	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.4%	5.0%	9.1%	2.8%	3.8%	19.6%	2.9%	3.2%	4.7%	4.4%
Return on Equity	17.3%	13.2%	20.7%	6.1%	8.4%	41.6%	5.9%	6.5%	9.5%	8.8%
ROIC	5.7%	5.3%	9.7%	2.9%	4.0%	20.9%	3.1%	3.4%	5.0%	4.8%
Shares Out.	294.9	302.7	354.3	361.2	363.5	365.0	367.0	368.1	370.5	371.8
Revenue/Share	5.17	5.46	6.74	6.92	7.21	6.35	6.46	6.72	6.99	6.66
FCF/Share	2.69	2.77	2.06	3.00	3.08	2.71	2.77	3.03	3.30	2.88

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