Equity LifeStyle Properties, Inc. (ELS)

Updated October 24th, 2021 by Felix Martinez

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	-0.8%	**Market Cap:**	$16.61 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/23/21
% Fair Value:	163%	**5 Year Valuation Multiple Estimate:**	-9.3%	**Dividend Payment Date:**	01/08/22
Dividend Yield:	1.7%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	17
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	5.8%

Overview & Current Events

Equity LifeStyle Properties, Inc is a real estate investment trust, which engages in the ownership and operation of lifestyle-oriented properties consisting primarily of manufactured home and recreational vehicle communities. The Trust was founded by James M. Hankins in December 1992 and is headquartered in Chicago, IL. Equity LifeStyle Properties operates through the following segments: Property Operations; and Home Sales and Rentals Operations. The Property Operations segment owns and operates land lease properties. The Home Sales and Rentals Operations segment purchases, sells, and leases homes at the properties. Today, Equity LifeStyle Properties, Inc. owns or has controlling interest in more than 400 communities and resorts in 33 states and British Columbia with more than 165,000 sites. The Trust employs 4,000 employees across the country. Equity LifeStyle Properties, Inc trades in the New York Stock Exchange under the ticker ELS. The Trust has a strong dividend growth history, has been increasing its dividend for seventeen consecutive years, and has a current market capitalization of $16.61 billion.

On October 18, 2021, Equity LifeStyle Properties reported third-quarter earnings for Fiscal Year (FY)2021. For the quarter, revenues increased $47.9 million, or 16.8%, to $332.9 million compared to $285.0 million for 3Q2020. The Trust reported net income that increased $20.0 million, to $70.6 million, or $0.38 per share, compared to $50.6 million, or $0.28 per share, for the same period in 2020. For the nine months of the fiscal year, total revenues are up 15.5%, to $946.4 million compared to $819.6 million for the nine months of 2020. Net income increased to $196.9 million, or $1.08 per share, compared to $163.6 million, or $0.90 per share, for the same period in 2020. This represents an increase of 20% year-over-year growth.

During the quarter, ELS acquired two properties. In August, ELS acquired a portion of Pirate Land Camping Resort located in Myrtle Beach, South Carolina, for $110.8 million. On October 14, 2021, ELS acquired its joint venture partner's 50% interest in Voyager RV Resort.

ELS management team provided 2021 full-year guidance in its third-quarter report. Management expects that the Trust will have a 4.2% core Mobile Homes and RV rate growth. Also, they expect an 8.1%-8.7% increase in core income from property operations year over year. Overall, for the entire year of 2021, management anticipates an FFO per share to be between $2.47 and $2.53. We will use the midpoint of $2.51 per share as our fair value and expected total return calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	$0.89	$1.16	$1.27	$1.35	$1.52	$1.66	$1.80	$1.94	$2.09	$2.17	***$2.51***	***$3.52***
DPS	$0.38	$0.44	$0.50	$0.65	$0.75	$0.85	$0.98	$1.10	$1.07	$1.37	***$1.45***	***$2.03***
Shares[1]	161	182	182	183	184	185	187	190	192	193	***193***	***193***

The continuation of acquiring properties and increasing core income from property operations will help drive FFO to grow for years to come. Over the past ten years, ELS has had a CAGR of 10.4% and a five-year CAGR of 8.6%. We think that this will start to slow down as the Trust continues to mature. Thus, we believe a 7% FFO growth rate for the next

[1] Share count is in millions.

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.

five years is rational. This will give us an FFO of $3.52 per share in 2026. We also expect the Trust to continue its dividend growth history and grow its dividend at a 7% rate.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	18.8	14.6	14.2	19.2	21.9	21.8	24.7	25.1	33.7	29.2	***34.3***	***21.0***
Avg. Yld.	2.3%	2.6%	2.8%	2.5%	2.3%	2.4%	2.2%	2.3%	1.5%	2.2%	***1.7%***	***2.8%***

Currently, ELS is overvalued to our fair price of $53. The Trust has a P/FFO of 34.3 based on FY2021 earnings of $2.51 per share. We think a sensible P/FFO ratio is 21.0. The current valuation provides a headwind of (9.3)% for the next five years. The present dividend yield is also a good indicator of the Trust's current valuation. The dividend yield of 1.7% is much lower than its ten-year average of 2.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

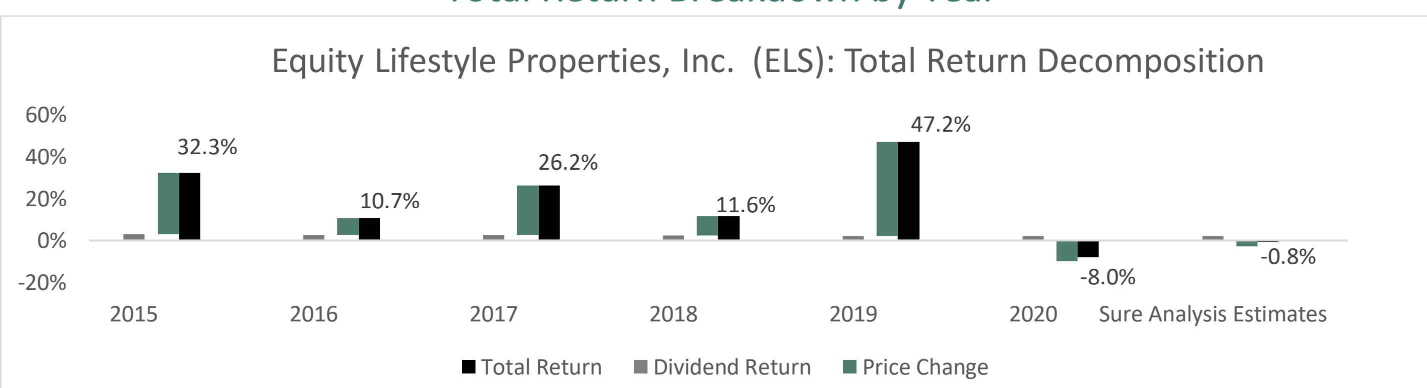
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42.7%	37.9%	39.4%	48.1%	49.3%	51.2%	54.4%	56.7%	51.2%	63.1%	***58%***	***58%***

ELS's competitive advantage is that Equity LifeStyle has a national presence and excellent reputation within the industry, which allows the Trust to pursue opportunities to increase customer service and deliver quality earnings for shareholders. During the Great Recession in 2007-2010, the Trust performed very well. In 2008, FFO increased 5% from $0.76 per share in 2007 to $0.80 per share in 2008. In 2009, FFO jumped by 12% to $0.99 per share. During the COVID-19 pandemic, the Trust saw the same results. In 2020, FFO grew 4% to $2.17 per share. Thus, ELS is a resilient, high-quality Trust. ELS does not have an S&P Credit Rating. However, the Trust's balance sheet is satisfactory with a current debt to equity ratio of 2.4 and a long-term debt cap ratio of 71%. The dividend is very well covered, with only 58% of FFO going toward its dividend payment. Since 2005, ELS has not had a dividend payout ratio higher than 65%.

Final Thoughts & Recommendation

Equity LifeStyle Properties is a fantastic trust to own in a portfolio. The Trust has a solid business model that allows it to expand its footprint in the affordable housing segment rapidly. The healthy balance sheet will help drive this and will enable acquisition volumes high. The current risk is the fact that the Trust is overvalued to our fair price estimate. We expect a five-year annual rate of return of (0.8)%. This is primarily because of the higher valuation. Thus, ELS is considered a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	565	669	713	761	807	856	912	968	1,021	1,080
Gross Profit	285	353	373	395	419	444	469	502	534	557
Gross Margin	50.5%	52.8%	52.2%	51.8%	51.9%	51.8%	51.4%	51.9%	52.4%	51.6%
SG&A Exp.	50	39	44	42	46	46	47	54	56	61
D&A Exp.	114	151	112	116	117	122	125	139	154	158
Operating Profit	127	171	216	234	255	277	298	311	327	341
Operating Margin	22.5%	25.5%	30.3%	30.8%	31.5%	32.4%	32.6%	32.1%	32.0%	31.6%
Net Profit	37	69	116	128	139	173	198	213	279	228
Net Margin	6.5%	10.4%	16.3%	16.8%	17.3%	20.2%	21.7%	22.0%	27.4%	21.1%
Free Cash Flow	114	161	191	222	259	233	252	232	186	249

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,496	3,398	3,392	3,446	3,400	3,479	3,610	3,926	4,151	4,419
Cash & Equivalents	70	37	58	74	80	56	36	69	29	24
Total Liabilities	2,497	2,474	2,429	2,467	2,408	2,397	2,510	2,732	2,829	3,114
Long-Term Debt	2,285	2,262	2,192	2,212	2,126	2,091	2,200	2,348	2,408	2,667
Shareholder’s Equity	726	723	757	776	789	872	1,032	1,122	1,250	1,234
D/E Ratio	2.47	2.63	2.45	2.43	2.30	2.07	2.13	2.09	1.93	2.16

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.3%	2.0%	3.4%	3.7%	4.1%	5.0%	5.6%	5.6%	6.9%	5.3%
Return on Equity	7.7%	9.6%	15.7%	16.7%	17.8%	20.9%	20.8%	19.7%	23.5%	18.4%
ROIC	1.4%	2.1%	3.7%	4.0%	4.4%	5.5%	6.1%	6.2%	7.7%	5.9%
Shares Out.	161	182	182	183	184	185	187	190	192	193
Revenue/Share	3.50	3.68	3.91	4.16	4.39	4.63	4.88	5.09	5.32	5.61
FCF/Share	0.70	0.89	1.05	1.21	1.41	1.26	1.35	1.22	0.97	1.30

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