Prologis (PLG)

Updated October 16th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$137	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$101.2B
Fair Value Price:	$99	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	12/17/2021
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.3%	**Dividend Payment Date:**	12/31/2021
Dividend Yield:	1.8%	**5 Year Price Target**	$152	**Years Of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	8.6%

Overview & Current Events

Prologis is by far the largest industrial U.S. REIT owning approximately 994 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 $56 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 15th, 2021, Prologis reported its Q3-2021 results for the period ending September 30th, 2021. Revenues grew 9.3% to $1.18 billion, while FFO/share increased 15.5% to $1.04. Prologis continues to enjoy record increases in market rents and valuations, which once again boosted its results. Demand for its industrial properties remained rock-solid, as global supply chains are still fighting to keep pace with accelerating economic activity, striving for faster fulfillment rates and operational resilience as COVID-19 restrictions begin to ease. Management wrote that "With vacancies at unprecedented lows, space in our markets is effectively sold out" in this context. Prologis' debt as a percentage of its total market cap kept on falling, dropping to a healthy 16.7% from 17.4% at the end of September. The company's weighted average borrowing rate remained constant, at a very attractive 2.1%, showcasing the capacity of its resilient financials to attract cheap financing. Finally, the REIT's weighted average remaining lease term stands at 10.4 years, contracting quarter-over-quarter (from 10.7 years) amid a lack of noteworthy lease extensions during the period. Due to the ongoing favorable market environment, management slightly raised its FY2021 outlook, projecting an FFO/share of $4.11 to $4.13. We have updated our expectations accordingly.

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	***$4.12***	***$6.34***
DPS	$1.06	$1.12	$1.12	$1.32	$1.52	$1.68	$1.76	$1.92	$2.12	$2.32	***$2.52***	***$3.70***
Shares[2]	371	460	486	500	521	526	530	567	631	754	***739***	***1400***

Over the past five years, FFO/share CAGR has been around 9.6%, while DPS CAGR has been about 8.4% over the same period. The company's growth shows no slowdown signs, continuing to acquire and develop essential logistics properties globally. Management's raised guidance keeps us confident about our FFO/share growth estimates, which we retain at 9%. In Q1, Prologis raised its DPS by 8.6% to an annualized rate of $2.52. To match its confident hike, we raised our DPS growth estimate at 8%, which we will retain as long as the company keeps performing at its current pace. While future performance could end up even stronger, we can't ignore the possibility of a future slowdown—hence, our rates.

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	***33.2***	***24.0***
Avg. Yld.	2.8%	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	***1.8%***	***2.4%***

[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 low 30s as of lately. Safety and growth come at a high price, and as a result, the stock is currently trading at 33.2 times this year's 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 in the medium term. We believe that a fair P/FFO would be around 24. This multiple should reflect the company's growth prospects and its unique qualities more reasonably. Investors are likely to continue appreciating Prologis' top-notch financials highly. Hence, we do expect a valuation compression, but we won't be surprised if the overvaluation persists.

Safety, Quality, Competitive Advantage, & Recession Resiliency

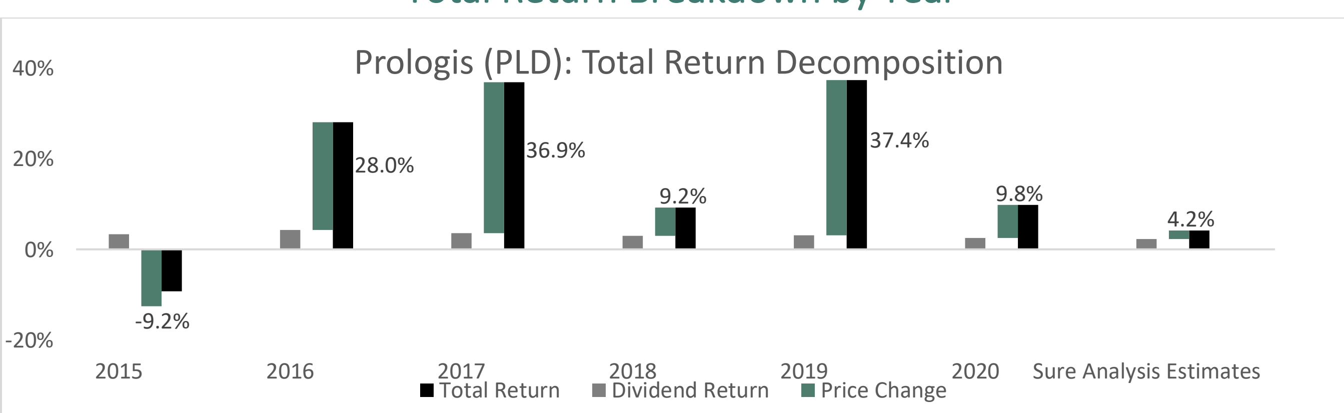
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	96%	93%	64%	70%	68%	65%	63%	63%	64%	61%	61%	***58%***

Prologis appears to be one of the safest choices in REITs during this period of uncertainty in other real estate industries. It features a healthy customer base consisting of huge enterprises that provide essential logistics services during the pandemic. Its occupancy rate remains profoundly strong at 96.6%, and management's raised guidance points towards another year of growth, though a more humble one. Further, the company's payout ratio is quite flexible at just over 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 low financing costs make 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 no 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 growth 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 combines growth at a substantial margin of safety. However, due to the stock's expanded valuation, income-oriented investors may find its relatively low yield unappealing. Additionally, due to the potential for a heavy valuation compression, our stock's annualized total return forecast comes out at a poor 4.2%. We can't ignore the fact that Prologis features great qualities, and the stock could be an attractive dividend growth option. Still, it is steeply overpriced at its current price levels, thus earning a sell recommendation from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1961	1750	1761	2197	2533	2618	2804	3331	4439
Gross Profit	1405	1209	1215	1544	1836	1893	2047	2412	3269
Gross Margin	71.7%	69.1%	69.0%	70.3%	72.5%	72.3%	73.0%	72.4%	73.6%
SG&A Exp.	228	229	229	217	222	231	239	267	275
D&A Exp.	767	664	642	880	931	879	947	1140	1562
Operating Profit	427	304	320	380	668	771	847	992	1402
Op. Margin	21.8%	17.4%	18.2%	17.3%	26.4%	29.5%	30.2%	29.8%	31.6%
Net Profit	-40	343	636	869	1210	1652	1649	1573	1482
Net Margin	-2.0%	19.6%	36.1%	39.6%	47.8%	63.1%	58.8%	47.2%	33.4%
Free Cash Flow	383	402	816	1033	1417	1687	1804	2264	2937
Income Tax	4	107	-26	23	55	55	63	75	131

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	27310	24572	25775	31395	30250	29481	38418	40032	56070
Cash & Equivalents	101	491	351	264	807	447	344	1089	598
Acc. Receivable	171	108	103	90	111	85	107	86	189
Goodwill & Int.	---	---	---	434	268	202	451	314	727
Total Liabilities	13537	10396	10591	12974	11792	10775	12617	13960	19740
Accounts Payable	612	564	628	713	556	703	761	705	1143
Long-Term Debt	11791	9011	9337	11627	10608	9413	11090	11906	16850
Total Equity	12487	13611	13897	14590	14913	15562	22229	22584	31910
D/E Ratio	0.90	0.66	0.67	0.79	0.71	0.60	0.50	0.53	0.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.1%	1.3%	2.5%	3.0%	3.9%	5.5%	4.9%	4.0%	3.1%
Return on Equity	-0.3%	2.6%	4.6%	6.1%	8.2%	10.8%	8.7%	7.0%	5.4%
ROIC	-0.2%	1.4%	2.7%	3.2%	4.1%	5.8%	5.1%	4.2%	3.3%
Shares Out.	462	492	506	534	547	552	590	655	754
Revenue/Share	4.24	3.56	3.48	4.11	4.63	4.74	4.75	5.09	5.88
FCF/Share	0.83	0.82	1.61	1.93	2.59	3.05	3.06	3.46	3.89

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