Equity LifeStyle Properties, Inc. (ELS)

Updated January 29th, 2022 by Felix Martinez

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	3.0%	**Market Cap:**	$14.4B
Fair Value Price:	$57	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/26/22[1]
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	04/10/22
Dividend Yield:	1.9%	**5 Year Price Target**	$80	**Years Of Dividend Growth:**	18
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	13.1%

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. The company has been increasing its dividend for seventeen consecutive years and has a current market capitalization of $14.4 billion.

On January 24th, 2022, Equity LifeStyle Properties reported fourth-quarter and full-year earnings for Fiscal Year (FY)2021. For the quarter, revenues increased $53.4 million, or 19.6%, to $325.3 million compared to $271.9 million for 4Q2020. The Trust reported a net income of $65.5 million, or $0.36 per share, compared to $64.6 million, or $0.35 per share, for the same period in 2020. For the fiscal year, total revenues are up 16.6%, to $1,271.7 million compared to $1,091.4 million for the entire year of 2020. Net income increased to $262.5 million, or $1.43 per share, compared to $228.3 million, or $1.25 per share, for the same period in 2020. This represents an increase of 14.4% year-over-year growth.

During the quarter, ELS acquired two properties. In November and December, ELS completed the acquisitions of Hope Valley, a 164-site RV community located in Turner, Oregon, and Lake Conroe, a 261-site RV community in Montgomery, Texas, for an aggregate purchase price of $31.9 million.

On January 25th, 2022, the company board approved a 13.1% rise in annual dividend to $1.64 per share, compared to the prior dividend of $1.45 per share.

ELS management team provided 2022 full-year guidance in its fourth-quarter report. Management expects that the Trust will have a 4.7% 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 2022, management anticipates an FFO per share to be between $2.64 and $2.74. We will use $2.70 per share as our fair value and expected total return calculations.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	$1.16	$1.27	$1.35	$1.52	$1.66	$1.80	$1.94	$2.09	$2.17	$2.53	***$2.70***	***$3.79***
DPS	$0.44	$0.50	$0.65	$0.75	$0.85	$0.98	$1.10	$1.07	$1.37	$1.45	***$1.64***	***$2.30***
Shares[2]	182.0	182.0	183.0	184.0	185.0	187.0	190.0	192.0	193.0	192.6	***192.6***	***192.6***

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 9.1% and a five-year CAGR of 8.4%. We think this

[1] Ex-Dividend and Dividend Payment dates are estimates
[2] 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.

will start to slow down as the Trust continues to mature. Thus, we believe a 7% FFO growth rate is rational for the next five years. This will give us an FFO of $3.79 per share in 2027. We also expect the Trust to continue its dividend growth history and grow its dividend at a 7% rate or higher as it did with the most recent increase.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	14.6	14.2	19.2	21.9	21.8	24.7	25.1	33.7	29.2	34.9	***28.6***	***21.0***
Avg. Yld.	2.6%	2.8%	2.5%	2.3%	2.4%	2.2%	2.3%	1.5%	2.2%	1.7%	***1.9%***	***2.9%***

Currently, ELS is overvalued to our fair price of $57. The Trust has a P/FFO of 28.6 based on FY2022 earnings of $2.70 per share. We think a sensible P/FFO ratio is 21.0. The current valuation provides a headwind of (6.0)% for the next five years. The present dividend yield is also a good indicator of the Trust's current valuation. The dividend yield of 1.9% is much lower than its ten-year average of 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

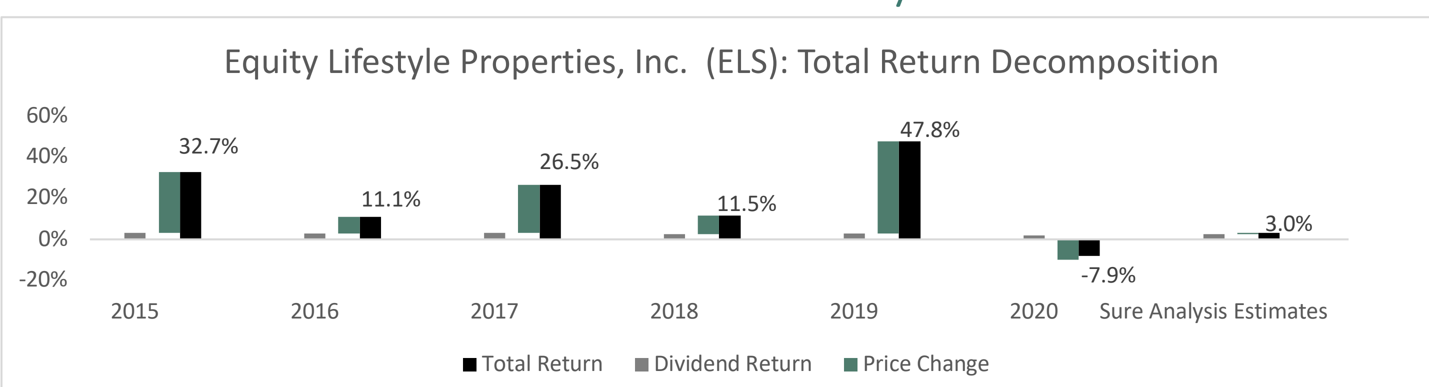
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37.9%	39.4%	48.1%	49.3%	51.2%	54.4%	56.7%	51.2%	63.1%	57.3%	***61%***	***61%***

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 2.5 and a long-term debt cap ratio of 71%. The dividend is very well covered, with only 61% 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 rapidly expand its affordable housing segment. The healthy balance sheet will help drive acquisition volumes high. The current risk is that the Trust is overvalued to our fair price estimate. We expect a five-year annual rate of return of 3.0%. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	669	713	761	807	856	912	968	1021	1080	1260
Gross Profit	391	413	437	464	491	520	556	591	615	699
Gross Margin	58.4%	57.9%	57.4%	57.4%	57.3%	57.0%	57.4%	57.9%	57.0%	55.5%
SG&A Exp.	77	84	85	90	93	99	108	112	119	136
D&A Exp.	151	112	116	117	122	125	139	154	158	
Operating Profit	171	216	234	255	277	298	311	327	341	375
Operating Margin	25.5%	30.3%	30.8%	31.5%	32.4%	32.6%	32.1%	32.0%	31.6%	29.8%
Net Profit	69	116	128	139	173	198	213	279	228	262
Net Margin	10.4%	16.3%	16.8%	17.3%	20.2%	21.7%	22.0%	27.4%	21.1%	20.8%
Free Cash Flow	161	191	222	259	233	252	232	186	249	

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,398	3,392	3,446	3,400	3,479	3,610	3,926	4,151	4,419	5,308
Cash & Equivalents	37	58	74	80	56	36	69	29	24	123
Total Liabilities	2,474	2,429	2,467	2,408	2,397	2,510	2,732	2,829	3,114	3,822
Long-Term Debt	2,262	2,192	2,212	2,126	2,091	2,200	2,348	2,408	2,667	3,274
Shareholder's Equity	723	757	776	789	872	1,032	1,122	1,250	1,234	1,415
LTD/E Ratio	2.63	2.45	2.43	2.30	2.07	2.13	2.09	1.93	2.16	2.31

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.0%	3.4%	3.7%	4.1%	5.0%	5.6%	5.6%	6.9%	5.3%	5.4%
Return on Equity	9.6%	15.7%	16.7%	17.8%	20.9%	20.8%	19.7%	23.5%	18.4%	19.8%
ROIC	2.1%	3.7%	4.0%	4.4%	5.5%	6.1%	6.2%	7.7%	5.9%	6.0%
Shares Out.	182.0	182.0	183.0	184.0	185.0	187.0	190.0	192.0	193.0	192.6
Revenue/Share	3.68	3.91	4.16	4.39	4.63	4.88	5.09	5.32	5.61	6.89
FCF/Share	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.