Equity Residential (EQR)

Updated March 2nd, 2022 by Samuel Smith

Key Metrics

Current Price:	$83.2	**5 Year CAGR Estimate:**	7.1%	**Market Cap:**	$33.9 B
Fair Value Price:	$76.1	**5 Year Growth Estimate:**	6.3%	**Ex-Dividend Date:**	03/31/2022[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	04/14/2022[2]
Dividend Yield:	2.9%	**5 Year Price Target**	$103	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	N/A

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. Equity Residential generates around $2.7 billion in annual revenues and is headquartered in Chicago, Illinois.

On February 1st, 2022, Equity Residential reported its Q4 results for the quarter ended December 31st, 2021. Revenue came in at $645.13 million, up by 5.17% YoY. FFO increased 4.1% to $0.76 per share year-over-year. Normalized FFO per share increased 7.9% to $0.82 year-over-year. Earnings per share stood at $1.40, up tremendously by 105.9% year-over-year due to higher property sales.

Equity Residential reported a 4.9% increase in same store revenue for the quarter driven by strong Physical Occupancy, a substantial improvement in pricing power and an increase in Non-Residential revenues. That said, same store physical occupancy increased to 96.6% from 94.2% year-over-year. Q4 rental income stood at $645.1 million, up from $613.4 million in the year-ago period.

Meanwhile, Equity Residential provided FY2022 operating guidance that expects a 19.5% increase in earnings per share, 15.2% increase in FFO/share, and 15.4% increase in Normalized FFO/share, driven by expected total same store revenue growth of 9.0% at the midpoint.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	$3.28	$2.46	$3.15	$3.64	$3.09	$3.28	$3.27	$3.53	$3.33	$2.99	***$3.46***	***$4.70***
DPS	$1.78	$1.85	$2.00	$2.21	$10.02[3]	$2.02	$2.16	$2.27	$2.15	$2.41	***$2.41***	***$3.00***
Shares[4]	325.5	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	***375.9***	***380.0***

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 6.3% 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 before suffering a slight cut in 2020 due to uncertainty surrounding COVID-19. Moving forward, we expect solid dividend per share growth to resume.

[1] Estimated dates based on past dividend dates
[2] Estimated dates based on past dividend dates
[3] Includes $8.00 of special dividends amid sale of non-core assets.
[4] 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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	18.3	24.4	20.0	20.6	21.7	19.8	19.3	23.8	16.8	29.5	***24.0***	***22.0***
Avg. Yld.	3.0%	3.1%	3.2%	2.9%	19.4%	3.1%	3.4%	2.7%	4.3%	2.8%	***2.9%***	***2.9%***

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 FFO. While the trust's performance has recovered in the wake of COVID-19, the stock price has recently rallied to levels that are incompatible with the current financials, trading at 24.0 times its forward FFO. We expect a valuation multiple compression to the low 20s over the next half decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	54%	75%	63%	61%	421%	62%	66%	64%	72%	82%	***70%***	***64%***

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 fully recover to their pre-COVID levels, as the trust was forced to reduce its rents to maintain said high occupancy.

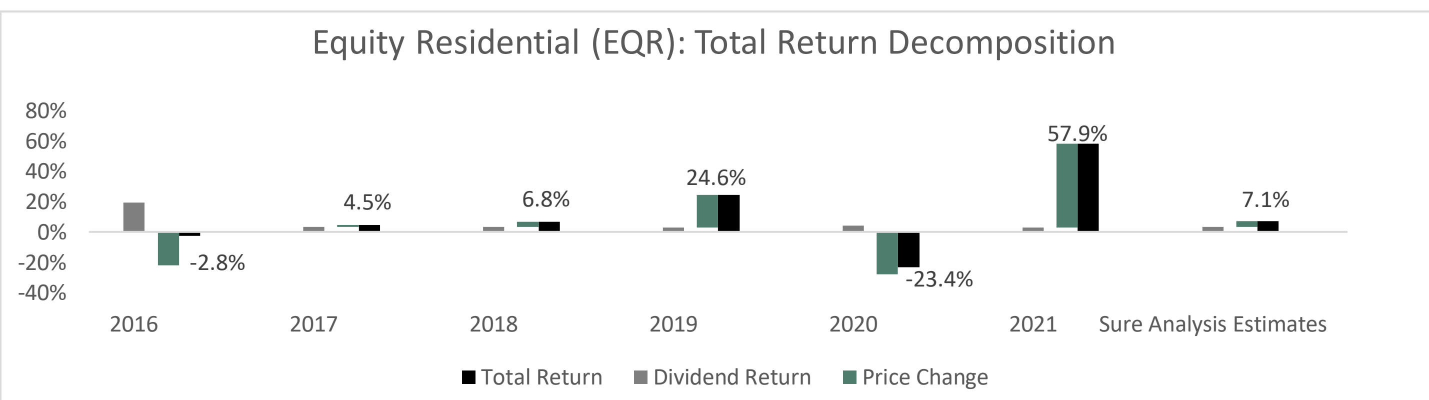
Overall, the trust operates in a highly competitive market. However, management's proven expertise should partially offset this risk. A prolonged recession in which individuals see their salaries declining could easily damage the trust's performance following reduced rents, poor rental collections, and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

Final Thoughts & Recommendation

Equity Residential has produced pretty strong returns over the years, though its FFO has recently been under pressure as the trust had to reduce rents to sustain higher occupancy levels during COVID-19 headwinds. This has improved somewhat lately as the economy – and the residential market in particular – is rebounding sharply. Meanwhile, investors have pushed the stock's valuation multiple to a level that is inconsistent with its historical norms and non-reflective of this year's expected performance, despite the improving outlook in the residential market.

Overall, we expect annualized returns of around 7.1% in the medium-term, powered by our estimated growth rates but offset by the possibility for valuation headwinds. Hence, we assign a Hold rating to Equity Residential.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,748	2,388	2,615	2,745	2,426	2,471	2,578	2,701	2,572	2,464
Gross Profit	1,122	1,553	1,731	1,840	1,620	1,645	1,698	1,792	1,655	1,515
Gross Margin	64.2%	65.1%	66.2%	67.0%	66.8%	66.6%	65.9%	66.4%	64.4%	61.5%
SG&A Exp.	47	62	51	65	58	52	54	53	48	57
D&A Exp.	685	1,014	762	769	709	748	790	843	832	851
Operating Profit	514	512	922	1,009	856	849	859	909	786	620
Operating Margin	29.4%	21.5%	35.2%	36.8%	35.3%	34.4%	33.3%	33.6%	30.6%	25.2%
Net Profit	842	1,831	631	870	4,292	603	658	970	914	1,333
Net Margin	48.2%	76.7%	24.1%	31.7%	177%	24.4%	25.5%	35.9%	35.5%	54.1%
Free Cash Flow	885	729	1,133	1,171	1,036	1,062	1,163	1,274	1,109	1,107
Income Tax	1	1	1	1	2	0	1	(2)	1	1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	17,201	22,835	22,951	23,110	20,704	20,571	20,394	21,173	20,287	21,169
Cash & Equivalents	613	54	40	42	77	51	47	46	43	124
Total Liabilities	9,674	11,989	12,243	12,414	10,243	10,097	9,995	10,628	9,523	9,982
Accounts Payable	38	119	154	187	147	115	102	94	107	107
Long-Term Debt	8,529	10,766	10,845	10,921	8,987	8,957	8,818	9,037	8,044	8,341
Shareholder's Equity	7,240	10,457	10,318	10,433	10,192	10,205	10,136	10,278	10,488	10,918
LTD/E Ratio	1.17	1.02	1.05	1.04	0.88	0.87	0.87	0.88	0.76	0.76

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.0%	9.1%	2.8%	3.8%	19.6%	2.9%	3.2%	4.7%	4.4%	6.4%
Return on Equity	13.2%	20.7%	6.1%	8.4%	41.6%	5.9%	6.5%	9.5%	8.8%	12.5%
ROIC	5.3%	9.7%	2.9%	4.0%	20.9%	3.1%	3.4%	5.0%	4.8%	7.0%
Shares Out.	325.5	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9
Revenue/Share	5.46	6.74	6.92	7.21	6.35	6.46	6.72	6.99	6.66	6.35
FCF/Share	2.77	2.06	3.00	3.08	2.71	2.77	3.03	3.30	2.88	2.85

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