Prologis (PLD)

Updated April 20th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$172	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$126.8 B
Fair Value Price:	$123	**5 Year Growth Estimate:**	11.0%	**Ex-Dividend Date[1]:**	06/15/2022
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.4%	**Dividend Payment Date:**	06/30/2022
Dividend Yield:	1.8%	**5 Year Price Target**	$207	**Years Of Dividend Growth:**	9
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Prologis is the largest industrial U.S. REIT by far, owning approximately 1 billion 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 $73.3 billion, a little over half that of Prologis. The company has a diversified rental collection base, comprising of more than 5,800 individual tenants. Prologis was founded in 1983 and is based in San Francisco, California.

On February 25th, 2022, Prologis raised its dividend by a substantial 25.4% to a quarterly rate of $0.79.

On April 19th, 2022, Prologis reported its Q1-2022 results for the period ending March 31st, 2022. Revenues grew 6.1% to $1.22 billion, while FFO/share increased 12.3% to $1.09. Prologis continues to enjoy record increases in market rents and valuations, which once again boosted its results. Demand for Prologis' industrial properties remains at record levels. Supply chain bottlenecks continue to persist, resulting in distributors aiming for improved fulfillment rates and operational resilience, thus boosting the company's results. Management mentioned that "even if retail sales declined 5% as consumers shift their spending to experiences versus goods, we project that the market will still require an incremental 800 million square feet of space in the US alone," suggesting no slowdown in demand for properties.

Prologis' debt as a percentage of its total market cap stayed at a healthy 13.5%. The company's weighted average borrowing rate also remained stable sequentially, at a cheap 1.7%. This illustrates the capacity of Prologis' resilient financials to maintain cheap financing. Finally, Prologis' weighted average remaining lease term stands at 4.0 years, contracting quarter-over-quarter (from 4.2 years) amid a lack of noteworthy lease extensions during the period. Due to the ongoing favorable market environment, management boosted its fiscal 2022 guidance, projecting an FFO/share between $5.10 and $5.16 (previously $5.00 to $5.10). We have utilized the midpoint in our estimates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/Share	$1.20	$1.76	$1.88	$2.23	$2.57	$2.81	$3.03	$3.31	$3.80	$4.15	***$5.13***	***$8.64***
DPS	$1.12	$1.12	$1.32	$1.52	$1.68	$1.76	$1.92	$2.12	$2.32	$2.52	***$3.16***	***$5.32***
Shares[2]	460	486	500	521	526	530	567	631	754	754	***765***	***1000***

Over the past five years, FFO/share CAGR was 12.8%, while DPS CAGR was 12.4% over the same period. The company's growth shows few signs of slowing down as Prologis continues to acquire and develop essential logistics properties globally. Management's impressive guidance and comments keep us confident about our FFO/share growth estimates, which we have hiked from 9% to 11%. Following Prologis' surprising latest DPS hike of 25.4% and elevated growth estimates ahead, we have also raised our DPS medium-term growth estimate from 8% to 11%. Future performance could end up even stronger, as Prologis currently enjoys unprecedented property absorption and above-average market rent growth (8.5% in the U.S. during the latest quarter). However, we remain prudent against a potential medium-term recession.

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[1] Estimated dates based on PLD's past dividend dates

[2] Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	29.1	22.7	20	21.16	17.5	20.8	18.9	28.1	26.3	31.3	***33.4***	***24.0***
Avg. Yld.	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.8%	***1.8%***	***2.6%***

Over the past decade, Prologis has retained relatively reasonable valuation multiples considering its rapid growth, mainly ranging from 15 to 25 times its underlying funds from operations. However, because COVID-19 adversely affected various REITs, investors quickly rushed to Prologis' secured cash flows, expanding the multiple 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 33.4 times this year's expected FFO/share. Despite the company's excellent metrics and industrial properties being the beneficiaries of the ongoing supply chain crisis, 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 to value 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

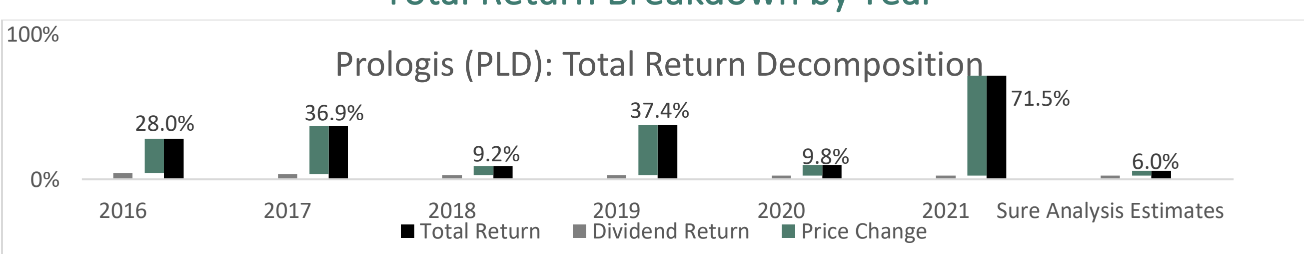
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	93%	64%	70%	68%	65%	63%	63%	64%	61%	61%	62%	***62%***

Prologis appears to be one of the safest choices amongst 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 97.4%, and management's impressive guidance points towards another year of high growth. Further, the company's payout ratio remains healthy at just over 60%, which could easily support growing dividends in line with FFO/share growth. Additionally, while the company's low financing costs could increase following the ongoing increase in rates, we believe that Prologis will manage to retain its borrowing rates rather low. 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 attract cheaper financing than Prologis. Prologis has a unique competitive advantage in that regard.

Final Thoughts & Recommendation

Investors looking to buy into a growing REIT with such a diversified tenant base have limited options nowadays. In our view, Prologis combines growth with numerous operating qualities. However, income-oriented investors may find its relatively low yield underwhelming due to the stock's expanded valuation. Additionally, due to the possibility of a heavy valuation compression, our stock's annualized total return forecast comes out at 6.0%. We feel that Prologis features great qualities, and the stock could be an attractive dividend growth option. Still, it is steeply overpriced at its current levels. Prologis earns a hold recommendation from Sure Dividend as a result.

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	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1761	2197	2533	2618	2804	3331	4439	4759
Gross Profit	1215	1544	1836	1893	2047	2412	3269	3511
Gross Margin	69.0%	70.3%	72.5%	72.3%	73.0%	72.4%	73.6%	73.4%
SG&A Exp.	229	217	222	231	239	267	275	293
D&A Exp.	642	880	931	879	947	1140	1562	1578
Operating Profit	320	380	668	771	847	992	1402	1617
Op. Margin	18.2%	17.3%	26.4%	29.5%	30.2%	29.8%	31.6%	34.0%
Net Profit	636	869	1210	1652	1649	1573	1482	2940
Net Margin	36.1%	39.6%	47.8%	63.1%	58.8%	47.2%	33.4%	61.8%
Free Cash Flow	816	1033	1417	1687	1804	2264	2937	2996
Income Tax	-26	23	55	55	63	75	131	174

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	25775	31395	30250	29481	38418	40032	56070	58490
Cash & Equivalents	351	264	807	447	344	1089	598	556
Acc. Receivable	103	90	111	85	107	86	189	424
Goodwill & Int.	---	434	268	202	451	314	727	553
Total Liabilities	10591	12974	11792	10775	12617	13960	19740	20740
Accounts Payable	628	713	556	703	761	705	1143	1253
Long-Term Debt	9337	11627	10608	9413	11090	11906	16850	17720
Total Equity	13897	14590	14913	15562	22229	22584	31910	33360
LTD/E Ratio	0.67	0.79	0.71	0.60	0.50	0.53	0.53	0.53

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.5%	3.0%	3.9%	5.5%	4.9%	4.0%	3.1%	5.1%
Return on Equity	4.6%	6.1%	8.2%	10.8%	8.7%	7.0%	5.4%	9.0%
ROIC	2.7%	3.2%	4.1%	5.8%	5.1%	4.2%	3.3%	5.4%
Shares Out.	506	534	547	552	590	655	754	765
Revenue/Share	3.48	4.11	4.63	4.74	4.75	5.09	5.88	6.22
FCF/Share	1.61	1.93	2.59	3.05	3.06	3.46	3.89	3.92

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