



Prologis (PLD)

Updated October 19th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$102	5 Year CAGR Estimate:	8.8%	Market Cap:	\$93.9 B
Fair Value Price:	\$92	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/13/2022
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	12/31/2022
Dividend Yield:	3.1%	5 Year Price Target	\$136	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 \$51.5 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 October 19th, 2022, Prologis reported its Q3-2022 results for the period ending September 30th, 2022. Revenues grew 48.3% to \$1.75 billion, while FFO/share increased 66% to \$1.73. While rental revenues grew 10.6% to \$1.16 billion, the top line was boosted by \$595 million of strategic capital revenues. Strategic capital revenues were just \$141 million last year.

Prologis' debt as a percentage of its total market cap was a healthy 20.7%. The company's weighted average borrowing rate jumped by 10 bps sequentially but remained at an attractive 1.9%. Finally, Prologis' weighted average remaining lease term now stands at 4.1 years, slightly shrinking quarter-over-quarter (from 4.2 years) following a lack of large lease extensions during the period. Given the impact of aggressive Fed tightening and the rapid change in market sentiment, management mentioned that the company will now be run by assuming an economic slowdown in its projections. Management also slightly revised its fiscal 2022 guidance, projecting an FFO/share between \$5.12 and \$5.14 (previously \$5.14 to \$5.18). 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	\$7.54
DPS	\$1.12	\$1.12	\$1.32	\$1.52	\$1.68	\$1.76	\$1.92	\$2.12	\$2.32	\$2.52	\$3.16	\$4.64
Shares²	460	486	500	521	526	530	567	631	754	754	766	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. Following the COVID-19 pandemic, the company has seen healthy demand that rivals past peak cycles, and according to its proprietary data insights, management expects strong demand for its properties to continue.

Nevertheless, due to their most recent comments regarding a slowdown in the global economy, we have lowered our FFO/share growth estimates from 9.5% to 8%. Basically, we expect the company's asset base expansion to slow down due to a halt in mass property acquisitions and the bottom line to be slightly pressured by rising rates when refinancing occurs.

Following Prologis' surprising latest DPS hike of 25.4% and the reduced but still robust growth estimates ahead, we also expect strong DPS growth over the medium-term. Again, however, we adjust our growth estimate from 9.5% to 8.0% to be prudent against macroeconomic headwinds

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	21.2	17.5	20.8	18.9	28.1	26.3	31.3	19.9	18.0
Avg. Yld.	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.8%	3.1%	3.4%

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 last year. The valuation has normalized following the recent market correction, with shares currently trading at roughly 20 times this year's expected FFO/share. We are lowering our medium-term P/FFO estimate from 20 to 18 to reflect the possibility of further compression driven by a rising-rates environment. In other words, investors are likely to require a higher risk premium these days. Nevertheless, this multiple should still reflect the company's growth prospects and its unique qualities rather reasonably.

Safety, Quality, Competitive Advantage, & Recession Resiliency

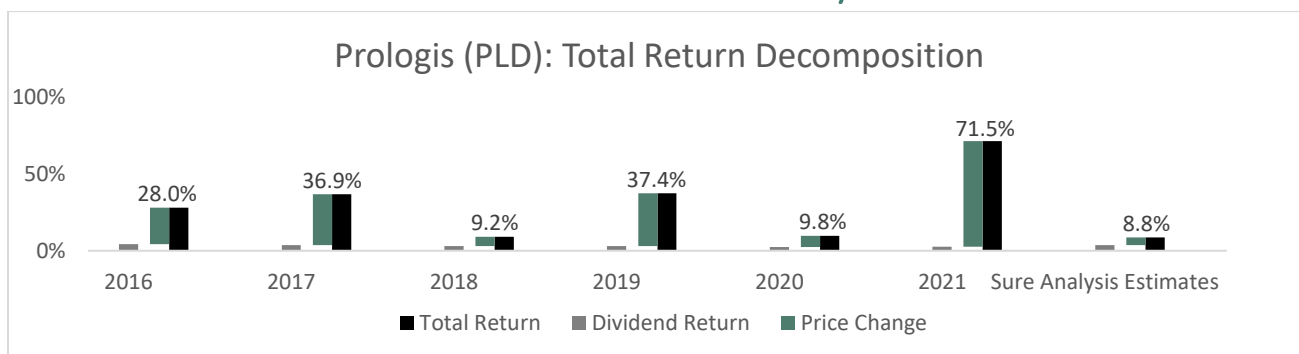
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	93%	64%	70%	68%	65%	63%	63%	64%	61%	61%	62%	62%

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 provided essential logistics services during the pandemic. Its occupancy rate remains very strong at 97.7%, 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 competitive borrowing rates. Considering that creditors have reduced 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. With its dividend yield advancing following the recent multiple compression, income-oriented investors may finally find Prologis a productive dividend-growth pick. We forecast annualized returns of 8.8% through 2027, driven by 8.0% FFO growth and a 3.1% yield, offset by the possibility of a 2.0% valuation headwind. Prologis is now assigned a hold recommendation from Sure Dividend as a result.

Total Return Breakdown by Year



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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.

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