Prologis (PLD)

Updated January 18th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$122	**5 Year CAGR Estimate:**	6.2%	**Market Cap:**	$112.2 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	03/17/2023
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	03/31/2023
Dividend Yield:	2.6%	**5 Year Price Target**	$144	**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 1.2 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 $50.4 billion, less than 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 January 18th, 2023, Prologis reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, revenues grew 36.7% to $1.75 billion, while FFO/share increased 10.7% to $1.24. Specifically, rental revenues grew 48.6% to $1.6 billion, but strategic capital revenues came in at $155 million, down 22.5% from last year.

Prologis' debt as a percentage of its gross market cap remained healthy at 20.1%. The company's weighted average borrowing rate jumped by 60 bps sequentially but remained at an acceptable 2.5%. Finally, Prologis' weighted average remaining lease term now stands at 4.2 years, slightly expanding quarter-over-quarter (from 4.1 years) following lease extensions during the period.

Management mentioned that while capital markets have begun to stabilize, it will likely take a few quarters before the company sees meaningful price discovery and normalization of values. Nevertheless, their guidance for fiscal 2023 remains rather optimistic. Management now projects an FFO/share between $5.40 and $5.50 for the year. We have utilized the midpoint in our estimates, which implies a year-over-year rate of 5.6%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/Share	$1.76	$1.88	$2.23	$2.57	$2.81	$3.03	$3.31	$3.80	$4.15	$5.16	***$5.45***	***$8.01***
DPS	$1.12	$1.32	$1.52	$1.68	$1.76	$1.92	$2.12	$2.32	$2.52	$3.16	***$3.16***	***$4.64***
Shares[2]	486	500	521	526	530	567	631	754	764	811	***946***	***1200.0***

Over the past five years, FFO/share CAGR was 12.5%, while DPS CAGR was 10.5% over the same period. Prologis has been achieving growth through its strategic acquisition and development of prime logistics properties on a global scale. The COVID-19 pandemic resulted in surging demand for the company's properties, surpassing previous peak market cycles. Prologis expects that robust demand for its properties will persist in the foreseeable future.

Therefore, despite the global economy slowing down and interest rates rising, we anticipate that Prologis can support FFO/share growth of 8% through 2028. The company's growth in its asset base is expected to slow as it won't be making as many property acquisitions, and the bottom line may be affected when it comes time to refinance due to higher rates. However, the company's long-term leases should continue to drive growing rental revenues in the coming years.

Following Prologis' surprising latest dividend increase of 25.4% and the reduced but still robust growth estimates ahead, we also expect strong DPS growth over the medium-term. Again, we retain our dividend growth estimate at 8.0% to be prudent against the ongoing macroeconomic headwinds.

---

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

[2] Share count is in millions.

Prologis (PLD)

Updated January 18th, 2023 by Nikolaos Sismanis

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	22.7	20	21.2	17.5	20.8	18.9	28.1	26.3	31.3	25.2	***22.3***	***18.0***
Avg. Yld.	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.8%	2.4%	***2.6%***	***3.2%***

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. The stock's valuation has normalized from the 2019-2021 levels following the recent market correction, with shares currently trading at roughly 22.3 times this year's expected FFO/share. Nevertheless, we continue to find Prologis rather overvalued and believe the stock would be more fairly priced at 18X FFOs. Investors are likely to require a higher risk premium these days. Besides, a P/FFO of 18 is still rich and reflects the stock's growth prospects and its unique qualities.

Safety, Quality, Competitive Advantage, & Recession Resiliency

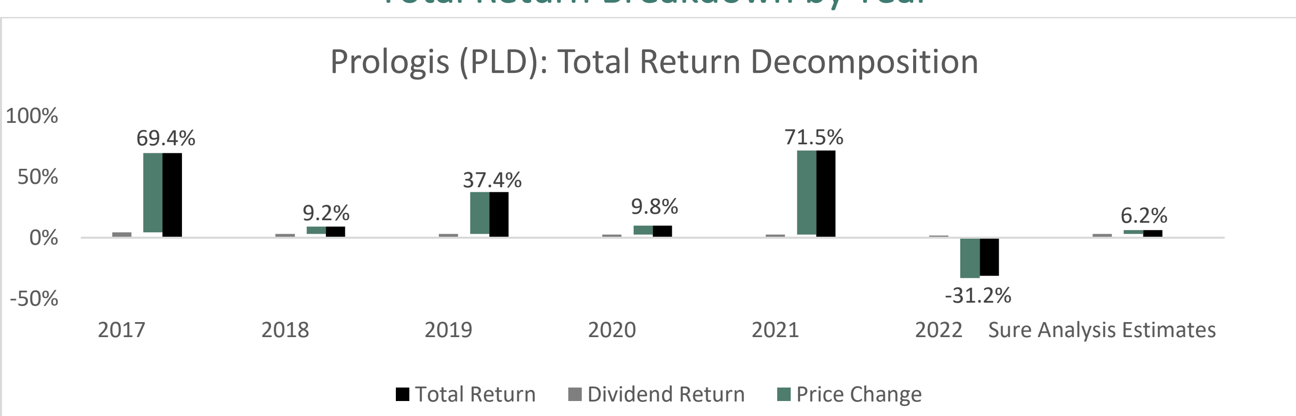
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	64%	70%	68%	65%	63%	63%	64%	61%	61%	61%	***58%***	***58%***

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 98.2%, and management's impressive guidance points towards another year of high growth. Further, the company's payout ratio remains healthy at just under 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 the stock's dividend yield advancing following the recent compression in its valuation multiple, dividend-growth investors may now find Prologis a fitting investment. We forecast annualized returns of 6.2% through 2028, driven by 8.0% FFO/share growth and a 2.6% yield, offset by the possibility of a 4.2% valuation headwind. Prologis is still assigned a hold recommendation from Sure Dividend as a result.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Prologis (PLD)

Updated January 18th, 2023 by Nikolaos Sismanis

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.