



Equity LifeStyle Properties, Inc. (ELS)

Updated February 5th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	5.0%	Market Cap:	\$14.2 B
Fair Value Price:	\$60	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	03/24/23
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	04/08/23
Dividend Yield:	2.3%	5 Year Price Target	\$82	Years Of Dividend Growth:	18
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Hold

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 a 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 on 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 eighteen consecutive years and has a current market capitalization of \$14.2 billion. On January 30th, 2023, Equity LifeStyle Properties reported fourth-quarter and full year earnings for Fiscal Year (FY)2022. For the quarter, revenues increased by \$5.3 million, or 1.6%, to \$340.6 million compared to \$335.3 million for 4Q2022. The Trust reported a net income of \$73.0 million, or \$0.39 per share, compared to \$65.5 million, or \$0.36 per share, for the same period in 2021. So far, for the full year, revenue is up 9.9% from \$1,316.4 million for the same period in 2021 to \$1,447.1 million. Funds from Operations (FFO) increased year-over-year to \$125.5 million, or \$0.65 per share, compared to \$123.0 million, or \$0.64 per share. This is an increase year-over-year of 1.6%. Also, for the full year, FFO is up from \$2.53 per share in 2021 to \$2.72 for the full year, which is an increase of 7.5%.

During the third quarter, the company completed the acquisition of an 80% interest in a joint venture with RVC Outdoor Destinations for a total purchase price of \$2.4 million. It also, acquired a 50% interest in a joint venture with Kampgrounds of America for a total purchase price of \$5.1 million. The company also announced a dividend increase of 9.1% from \$1.64 per share for the year to now \$1.79 per share for the year.

ELS management team provided 2023 full-year guidance in its fourth-quarter report. They expect a 6.5% increase in core income from property operations year over year. Overall, for 2022, management anticipates an FFO per share to be between \$2.79 and \$2.89. We will use \$2.85 per share as our fair value and expected total return calculations.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$1.27	\$1.35	\$1.52	\$1.66	\$1.80	\$1.94	\$2.09	\$2.17	\$2.53	\$2.72	\$2.85	\$3.90
DPS	\$0.50	\$0.65	\$0.75	\$0.85	\$0.98	\$1.10	\$1.07	\$1.37	\$1.45	\$1.64	\$1.79	\$2.45
Shares¹	182.0	183.0	184.0	185.0	187.0	190.0	192.0	193.0	192.6	195.3	195.0	195.0

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 8.8% and a five-year CAGR of 8.0%. We think this will start to slow down as the Trust matures. Thus, we believe a 6.5% FFO growth rate is rational for the next five years.

¹ Share count is in millions.

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This will give us an FFO of \$3.90 per share in 2028. We also expect the Trust to continue its dividend growth history and grow its dividend at a 6.5% rate or higher as it did with the most recent increase.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	14.2	19.2	21.9	21.8	24.7	25.1	33.7	29.2	34.9	23.8	25.5	21.0
Avg. Yld.	2.8%	2.5%	2.3%	2.4%	2.2%	2.3%	1.5%	2.2%	1.7%	2.5%	2.3%	3.0%

Currently, ELS is overvalued to our fair price of \$60. The Trust has a P/FFO of 25.5 based on FY2023 earnings of \$2.85 per share. We think a sensible P/FFO ratio is 21.0. The current valuation provides a headwind of (3.8)% for the next five years. The present dividend yield is also a good indicator of the Trust's current valuation. The dividend yield of 2.3% is slightly higher than its ten-year average of 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

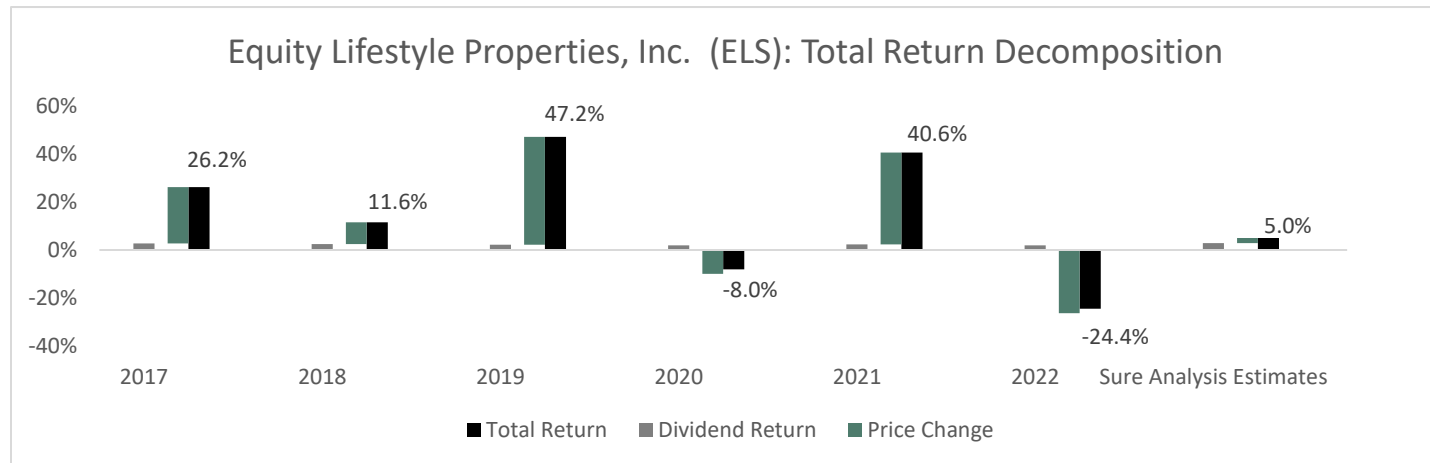
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	39.4%	48.1%	49.3%	51.2%	54.4%	56.7%	51.2%	63.1%	57.3%	60.3%	63%	63%

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 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 2.3 and a long-term debt cap ratio of 68.2%. The dividend is very well covered, with only 63% 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 high acquisition volumes. The current risk is that the Trust is overvalued to our fair price estimate. We expect a five-year annual rate of return of 5.0%. This is primarily because of the higher valuation. Thus, ELS is considered a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	713	761	807	856	912	968	1021	1080	1260	1,431
Gross Profit	413	437	464	491	520	556	591	615	699	701
Gross Margin	57.9%	57.4%	57.4%	57.3%	57.0%	57.4%	57.9%	57.0%	55.5%	49.0%
SG&A Exp.	84	85	90	93	99	108	112	119	136	96
D&A Exp.	112	116	117	122	125	139	154	158		
Operating Profit	216	234	255	277	298	311	327	341	375	406
Operating Margin	30.3%	30.8%	31.5%	32.4%	32.6%	32.1%	32.0%	31.6%	29.8%	28.4%
Net Profit	116	128	139	173	198	213	279	228	262	285
Net Margin	16.3%	16.8%	17.3%	20.2%	21.7%	22.0%	27.4%	21.1%	20.8%	19.9%
Free Cash Flow	191	222	259	233	252	232	186	249		

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,392	3,446	3,400	3,479	3,610	3,926	4,151	4,419	5,308	5,493
Cash & Equivalents	58	74	80	56	36	69	29	24	123	22
Total Liabilities	2,429	2,467	2,408	2,397	2,510	2,732	2,829	3,114	3,822	3,975
Long-Term Debt	2,192	2,212	2,126	2,091	2,200	2,348	2,408	2,667	3,274	3,388
Shareholder's Equity	757	776	789	872	1,032	1,122	1,250	1,234	1,415	1,445
LTD/E Ratio	2.45	2.43	2.30	2.07	2.13	2.09	1.93	2.16	2.31	2.34

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.4%	3.7%	4.1%	5.0%	5.6%	5.6%	6.9%	5.3%	5.4%	5.3%
Return on Equity	15.7%	16.7%	17.8%	20.9%	20.8%	19.7%	23.5%	18.4%	19.8%	19.9%
ROIC	3.7%	4.0%	4.4%	5.5%	6.1%	6.2%	7.7%	5.9%	6.0%	5.9%
Shares Out.	182.0	183.0	184.0	185.0	187.0	190.0	192.0	193.0	192.6	195.3
Revenue/Share	3.91	4.16	4.39	4.63	4.88	5.09	5.32	5.61	6.89	7.33
FCF/Share	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.

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