



Mid-America Apartment Communities (MAA)

Updated April 27th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$147	5 Year CAGR Estimate:	11.4%	Market Cap:	\$17.7 B
Fair Value Price:	\$171	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	7/13/2023 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	7/28/2023
Dividend Yield:	3.8%	5 Year Price Target	\$218	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Mid-America Apartment Communities (MAA) is a real estate investment trust (REIT) that owns, operates and acquires apartment communities in the Southeast, Southwest and mid-Atlantic regions of the U.S. Founded in 1977, it currently has ownership interest in 101,986 apartment units across 16 states and the District of Columbia and has a market capitalization of \$17.7 billion. MAA aims to offer superior returns to its shareholders by focusing on the Sunbelt Region of the U.S., which has exhibited superior population growth and economic growth in the long run.

In late April, MAA reported (4/26/23) financial results for the first quarter of fiscal 2023. The company continued to recover from the pandemic, with hardly any signs of fatigue. Its same-store net operating income grew 12.5% over the prior year's quarter, partly thanks to 8.6% growth in average rent per unit in new leases. Core funds from operations (FFO) per share grew 16%, from \$1.97 to \$2.28, thus exceeding the analysts' consensus by \$0.03. MAA has missed the analysts' FFO estimates only once in the last 20 quarters. Thanks to strong business momentum, management slightly improved its guidance for 2023. It raised its guidance for core FFO per share from \$8.88-\$9.08 to \$8.93-\$9.29, implying 7% growth at the mid-point. MAA has repeatedly proved too conservative in its guidance and tends to raise its guidance many times throughout the year. As a result, we expect core FFO per share of \$9.20 this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$4.35	\$5.39	\$6.02	\$5.88	\$6.15	\$6.27	\$6.79	\$6.43	\$7.01	\$8.50	\$9.20	\$11.74
DPS	\$2.78	\$2.92	\$3.08	\$3.28	\$3.48	\$3.69	\$3.84	\$4.00	\$4.10	\$4.68	\$5.60	\$7.42
Shares²	53.1	75.0	75.2	78.8	113.7	113.8	114.1	114.5	118.6	118.6	120.0	160.0

MAA has benefited from its focus on the Sunbelt Region of the U.S., which has enjoyed higher economic growth than the rest of the country. About 60% of all the domestic moves occurred in the markets of MAA in the last nine years. MAA has grown its FFO per share at a 7.7% average annual rate over the last decade. Growth stumbled in 2020 due to the pandemic, but the pandemic has subsided and thus MAA has returned to growth mode. MAA has ample room to expand its asset portfolio while it will also grow its bottom line by enhancing the value to its customers via the rollout of smart home technology in its units. MAA has already installed smart home technology in more than 50,000 units. Overall, we have assumed that the REIT will grow its FFO per share at a 5.0% average annual rate over the next five years, slightly slower than its historical growth rate, in order to be on the safe side.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg P/FFO	15.1	12.9	13.2	16.4	16.7	15.3	17.5	18.7	24.7	21.3	16.0	18.6
Avg. Yld.	4.2%	4.2%	3.9%	3.4%	3.4%	3.8%	3.2%	3.3%	2.4%	2.6%	3.8%	3.4%

¹ Estimated date.

² In millions.

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MAA is currently trading at a P/FFO ratio of 16.0, which is lower than the historical 7-year average of 18.6. If the stock trades at its average valuation level in five years, it will enjoy a 3.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	63.9%	54.2%	51.2%	55.8%	56.6%	58.9%	56.6%	62.2%	58.5%	55.1%	60.9%	63.2%

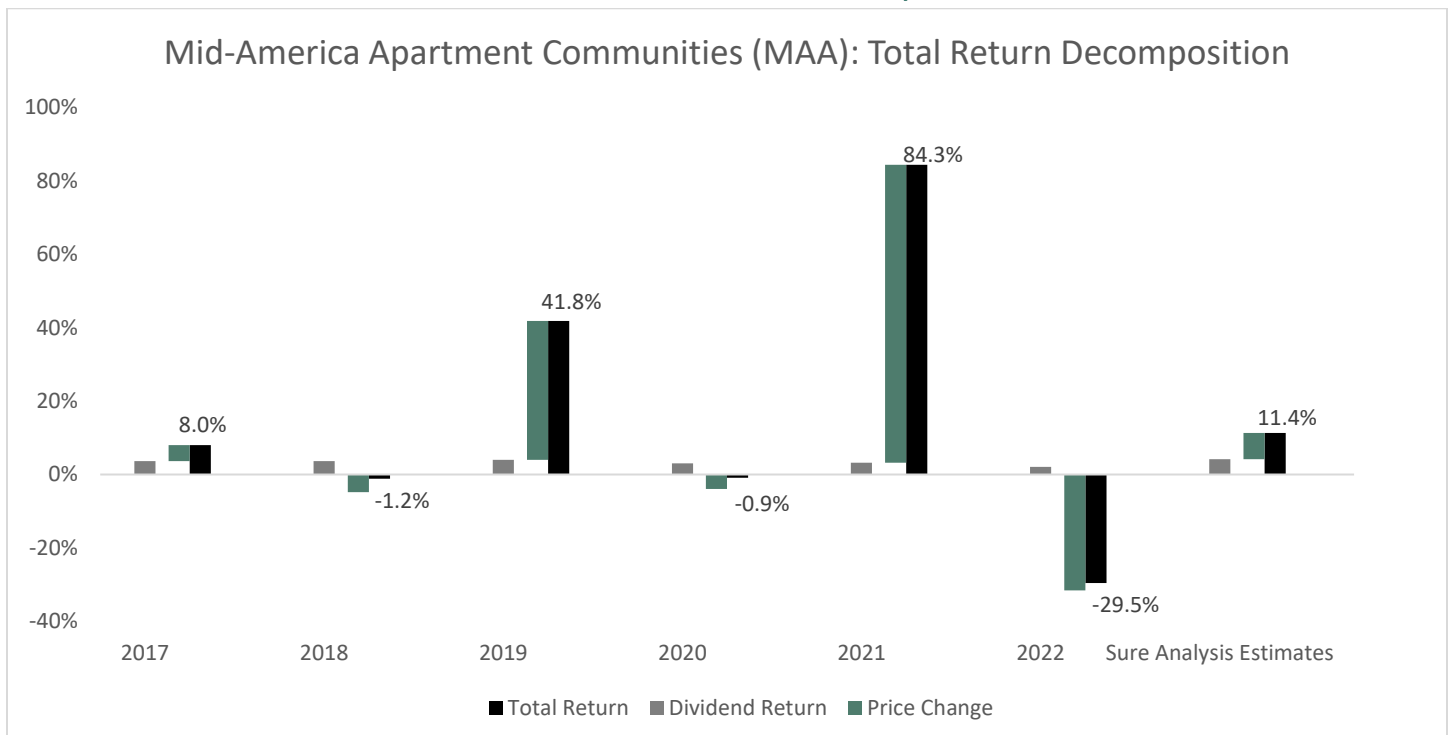
MAA heavily dilutes its shareholders on a regular basis. Its share count has more than tripled over the last 13 years, from 32 million in 2010 to 119.8 million now. This is a point of concern but the REIT has grown its FFO at a higher rate and thus it has exhibited a decent growth record. MAA has also raised its dividend for 12 consecutive years and has a healthy payout ratio of 61%. It also has one of the strongest balance sheets in the REIT universe, with net debt of \$5.0 billion, which is only five times the annual FFO. As a result, the 3.8% dividend yield of MAA should be considered safe.

It is also worth noting that MAA proved markedly resilient to the recession caused by the pandemic, posting just a -5% decrease in its FFO per share in 2020 while it collected the vast portion of its billings. Therefore, MAA appears much more resilient to recessions than most REITs, which have significant exposure to companies and individuals who are vulnerable to recessions.

Final Thoughts & Recommendation

MAA has declined -28% over the last 12 months, mostly due to its rich initial valuation and the impact of high interest rates on the interest expense of the REIT and its valuation. We expect the stock to offer an 11.4% average annual return over the next five years thanks to 5.0% annual growth of FFO per share, its 3.8% dividend and a 3.1% valuation tailwind. The stock receives a marginal buy rating, though the short-term momentum of the stock price is negative. MAA is attractive for patient, income-oriented investors thanks to its reliable growth strategy, its healthy payout ratio and its strong balance sheet.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	635	992	1,043	1,125	1,529	1,571	1,641	1,678	1,778	2,020
Gross Profit	172	265	317	345	415	439	476	527	573	753
Gross Margin	27.0%	26.7%	30.4%	30.7%	27.1%	28.0%	29.0%	31.4%	32.3%	37.3%
SG&A Exp.	16	21	26	29	40	35	46	99	109	124
D&A Exp.	190	302	295	323	495	491	498	512	534	544
Operating Profit	156	244	291	316	375	405	430	428	465	629
Op. Margin	24.6%	24.6%	27.9%	28.1%	24.5%	25.7%	26.2%	25.5%	26.1%	31.1%
Net Profit	115	148	332	212	328	223	354	255	534	637
Net Margin	18.1%	14.9%	31.9%	18.9%	21.5%	14.2%	21.6%	15.2%	30.0%	31.5%
Free Cash Flow	205	295	298	301	317	480	478	397	615	762

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,842	6,822	6,848	11,604	11,492	11,324	11,230	11,195	11,285	11,241
Cash & Equivalents	89	27	38	34	11	34	20	25	54	39
Total Liabilities	3,728	3,770	3,690	4,962	4,918	4,952	4,941	5,091	5,101	5,031
Long-Term Debt	3,473	3,513	3,428	4,500	4,502	4,528	4,455	4,563	4,517	4,415
Shareholder's Equity	2,947	2,891	2,992	6,404	6,340	6,150	6,069	5,872	5,995	6,026
LTD/E Ratio	1.18	1.22	1.15	0.70	0.71	0.74	0.73	0.78	0.75	0.73

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.4%	2.2%	4.9%	2.3%	2.8%	2.0%	3.1%	2.3%	4.7%	5.7%
Return on Equity	6.0%	5.1%	11.3%	4.5%	5.2%	3.6%	5.8%	4.3%	9.0%	10.6%
ROIC	2.5%	2.3%	5.1%	2.4%	3.0%	2.0%	3.3%	2.4%	5.0%	6.0%
Shares Out.	53.1	75.0	75.2	78.8	113.7	113.8	114.1	114.5	118.6	115.6
Revenue/Share	11.96	13.23	13.87	14.28	13.45	13.80	14.38	14.15	15.46	17.48
FCF/Share	3.86	3.94	3.96	3.82	2.79	4.21	4.19	3.35	5.18	6.60

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

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