



Prologis (PLD)

Updated October 18th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$106	5 Year CAGR Estimate:	8.8%	Market Cap:	\$98.1 B
Fair Value Price:	\$95	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/16/2023
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	12/30/2023
Dividend Yield:	3.3%	5 Year Price Target	\$140	Years Of Dividend Growth:	9
Dividend Risk Score:	D	Retirement Suitability Score:	D	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 \$47.3 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 October 17th, 2023, Prologis reported its Q3-2023 results for the period ending September 30th, 2023. For the quarter, revenues grew by 9.7% to \$1.92 billion, while core FFO/share fell 24.9% to \$1.30. The decline in core FFO/share was due to higher general and administrative expenses, as well as higher rent-related expenses. Higher interest expenses also negatively impacted the bottom line. In fact, interest expenses rose by 183% to \$181.1 million, reflecting the ongoing rise in interest rates.

Prologis' debt as a percentage of its gross market cap remained healthy at 22.3%. The company's weighted average borrowing rate remained stable sequentially at an acceptable 2.9%. Finally, Prologis' weighted average remaining lease term remained at 4.0 years, stable quarter-over-quarter following lease extensions during the period.

Despite the headwind in FFO/share during the quarter, management remains optimistic about the company's results moving forward. Evidently, the company now projects core FFO/share between \$5.58 and \$5.60 (up from \$5.56 and \$5.60 previously) for the year. We have utilized the midpoint in our estimates, which implies a year-over-year rate of 8.3%.

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	\$5.59	\$8.21
DPS	\$1.12	\$1.32	\$1.52	\$1.68	\$1.76	\$1.92	\$2.12	\$2.32	\$2.52	\$3.16	\$3.48	\$5.11
Shares²	486	500	521	526	530	567	631	754	764	811	952	1200

Over the past five years, FFO/share CAGR was 12.7%, while DPS CAGR was 12.2% 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.

We also expect equally strong DPS growth over the medium-term, but lower than the most recent hike to be prudent against the ongoing 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	22.7	20.0	21.2	17.5	20.8	18.9	28.1	26.3	31.3	25.2	19.0	17.0
Avg. Yld.	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.8%	2.4%	3.3%	3.7%

Over the past decade, shares of Prologis have traded between 15 to 25 times their underlying funds from operations, based on the company's growth prospects and the prevalent interest rates in each period. The stock's valuation has normalized from the 2019-2021 levels following the recent market correction, with shares currently trading at 19 times this year's expected FFO/share. Nevertheless, we continue to find Prologis modestly overvalued and believe the stock would be more fairly priced at 17X FFOs. Investors are likely to require a higher risk premium these days. In our view, a P/FFO of 17 is still rich and reflects the stock's growth prospects and its unique qualities.

Safety, Quality, Competitive Advantage, & Recession Resiliency

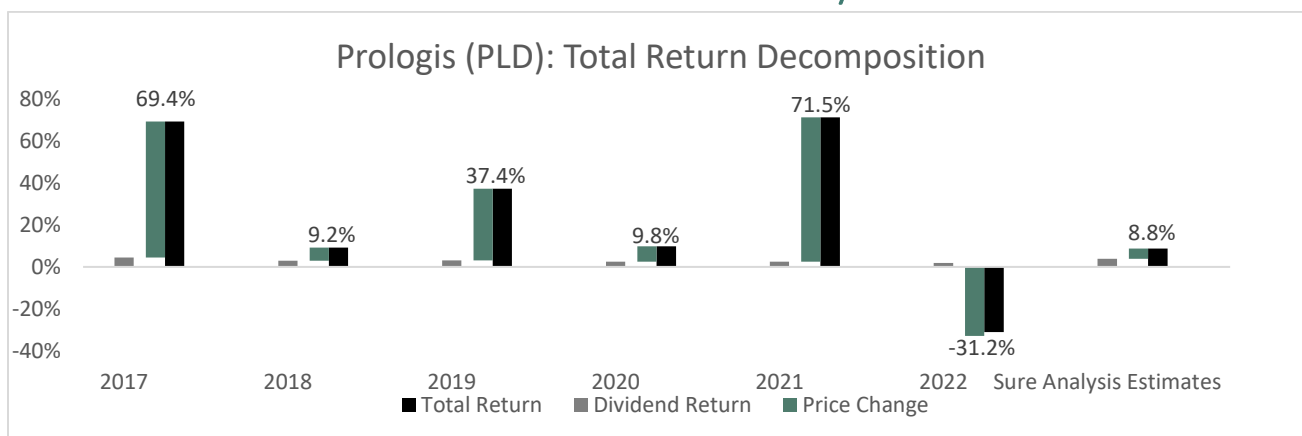
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	64%	70%	68%	65%	63%	63%	64%	61%	61%	61%	62%	62%

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 97.1%, 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 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 8.8% through 2028, driven by 8.0% FFO/share growth, and a 3.3% yield, offset by the possibility of a 2.2% valuation headwind. Prologis is still assigned a hold recommendation from Sure Dividend as a result.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2197	2533	2618	2804	3331	4439	4759	5974
Gross Profit	1544	1836	1893	2047	2412	3269	3511	4465
Gross Margin	70.3%	72.5%	72.3%	73.0%	72.4%	73.6%	73.4%	74.7%
SG&A Exp.	217	222	231	239	267	275	293	331
D&A Exp.	880	931	879	947	1140	1562	1578	1813
Operating Profit	380	668	771	847	992	1402	1617	2280
Op. Margin	17.3%	26.4%	29.5%	30.2%	29.8%	31.6%	34.0%	38.2%
Net Profit	869	1210	1652	1649	1573	1482	2940	3365
Net Margin	39.6%	47.8%	63.1%	58.8%	47.2%	33.4%	61.8%	56.3%
Free Cash Flow	1033	1417	1687	1804	2264	2937	2996	4126
Income Tax	23	55	55	63	75	131	174	135

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	31395	30250	29481	38418	40032	56070	58490	87900
Cash & Equivalents	264	807	447	344	1089	598	556	278
Acc. Receivable	90	111	85	107	86	189	424	378
Goodwill & Int.	434	268	202	451	314	727	553	1183
Total Liabilities	12974	11792	10775	12617	13960	19740	20740	30030
Accounts Payable	713	556	703	761	705	1143	1253	1712
Long-Term Debt	11627	10608	9413	11090	11906	16850	17720	23880
Total Equity	14590	14913	15562	22229	22584	31910	33360	53170
LTD/E Ratio	0.79	0.71	0.60	0.50	0.53	0.53	0.53	0.45

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.0%	3.9%	5.5%	4.9%	4.0%	3.1%	5.1%	4.6%
Return on Equity	6.1%	8.2%	10.8%	8.7%	7.0%	5.4%	9.0%	7.8%
ROIC	3.2%	4.1%	5.8%	5.1%	4.2%	3.3%	5.4%	4.9%
Shares Out.	534	547	552	590	655	754	765	812
Revenue/Share	4.11	4.63	4.74	4.75	5.09	5.88	6.22	7.36
FCF/Share	1.93	2.59	3.05	3.06	3.46	3.89	3.92	5.08

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

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