# Prologis (PLD)

*Updated January 17th, 2024 by Nikolaos Sismanis*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $128 | **5 Year CAGR Estimate:** | 4.5% | **Market Cap:** | $118.2 B |
| **Fair Value Price:** | $93 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date[1]:** | 03/15/2024 |
| **% Fair Value:** | 137% | **5 Year Valuation Multiple Estimate:** | -6.1% | **Dividend Payment Date:** | 03/29/2024 |
| **Dividend Yield:** | 2.7% | **5 Year Price Target** | $137 | **Years Of Dividend Growth:** | 9 |
| **Dividend Risk Score:** | F | **Retirement Suitability Score:** | F | **Rating:** | Sell |

## Overview & Current Events

Prologis is the largest industrial U.S. REIT by far, owning about 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 $51.9 billion, less than half that of Prologis. The company has a diversified rental collection base, comprising of more than 6,700 individual tenants. Prologis was founded in 1983 and is based in San Francisco, California.

On January 17th, 2024, Prologis reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues grew by 7.8% to $1.89 billion, while core FFO/share rose by 1.6% to $1.26. The less significant growth in 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 44.4% to $174.5 million, reflecting elevated interest rates. For the year, core FFO/share came in at $5.61, rising 8.7% compared to fiscal 2022, despite a rather turbulent real estate market.

Prologis' debt as a percentage of its gross market cap remained healthy at 20.5%. The company's weighted average borrowing rate rose 10 bps sequentially but remained at an acceptable 3.0%. Finally, Prologis' weighted average remaining lease term was 5.4 years, rising from 5.1 years following lease extensions signed during the period.

While last year's steep rate increases are likely to result in a decline in profits in fiscal 2024, FFO/share is not expected to decline substantially. Management now projects core FFO/share between $5.42 and $5.56 for the year. We have utilized the midpoint in our estimates, which implies a year-over-year decline of 2.1%.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FFO/Share** | $1.88 | $2.23 | $2.57 | $2.81 | $3.03 | $3.31 | *$3.80* | *$4.15* | *$5.16* | *$5.61* | ***$5.49*** | ***$8.07*** |
| **DPS** | $1.32 | $1.52 | $1.68 | $1.76 | $1.92 | $2.12 | $2.32 | $2.52 | $3.16 | $3.48 | ***$3.48*** | ***$5.11*** |
| **Shares[2]** | 500 | 521 | 526 | 530 | 567 | 631 | 754 | 764 | 811 | 952 | ***952*** | ***1200.0*** |

Over the past five years, FFO/share CAGR was 10.6%, while DPS CAGR was 10.4% 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 2029. 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.

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

[2] Share count is in millions.

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## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/FFO | 20 | 21.2 | 17.5 | 20.8 | 18.9 | 28.1 | 26.3 | 31.3 | 25.2 | 20.8 | ***23.3*** | ***17.0*** |
| Avg. Yld. | 2.7% | 2.8% | 3.0% | 2.0% | 2.0% | 1.8% | 1.8% | 1.8% | 2.4% | 3.0% | ***2.7%*** | ***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 somewhat normalized from the 2019-2021 levels. Nevertheless, at 23.3 times this year's expected FFO/share, we still 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

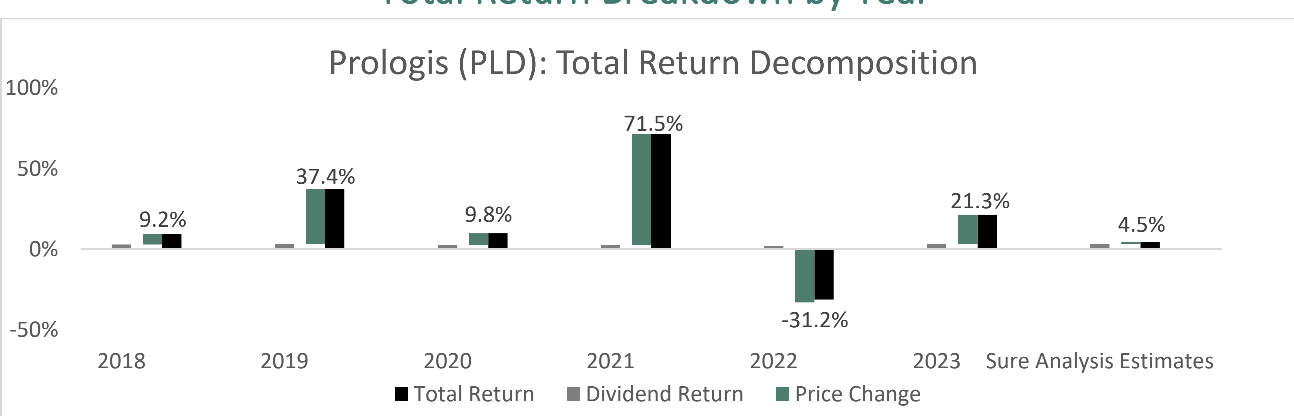
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 70% | 68% | 65% | 63% | 63% | 64% | 61% | 61% | 61% | 62% | **63%** | ***63%*** |

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 under 65%, which could easily support growing dividends in line with FFO/share growth. Additionally, while the company's low financing costs could increase following the recent 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. However, we believe that Prologis' current valuation could limit the stock's future returns prospects. We forecast annualized returns of just 4.5% through 2029, driven by 8.0% FFO/share growth, and a 2.7% yield, largely offset by the possibility of a 6.1% valuation headwind. Prologis is now downgraded to a sell 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.*