Prologis (PLD)

Updated April 18th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$107	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$100.1 B
Fair Value Price:	$92	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	06/14/2024
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	06/28/2024
Dividend Yield:	3.6%	**5 Year Price Target**	$135	**Years Of Dividend Growth:**	10
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $46.1 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 February 22nd, 2024, Prologis increased its dividend by 10.3% to a quarterly rate of $0.96.

On April 17th, 2024, Prologis reported its Q1 results for the period ending March 31st, 2024. For the quarter, revenues grew by 10.6% to $1.96 billion, while core FFO/share rose by about 5% to $1.28. The less significant growth in FFO/share was due to higher general and admin expenses, as well as higher rent-related expenses. Higher interest expenses also negatively impacted the bottom line. In fact, interest expenses rose by 42% to $193.3 million, reflecting the rising rates environment.

Prologis' debt as a percentage of its gross market cap remained healthy at 21%. Its weighted average borrowing rate rose 10 bps sequentially, but remained at an acceptable 3.1%. Finally, Prologis' weighted average remaining lease term was 3.9 years.

While the company had a somewhat successful first quarter, management expects that net absorption in the upcoming quarters will be lower than their prior expectations. Hence, management downgraded their prior guidance, expecting core FFO for the year to be between $5.37 and $5.47 (down from $5.42 to $5.56). 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	***$5.42***	***$7.96***
DPS	$1.32	$1.52	$1.68	$1.76	$1.92	$2.12	$2.32	$2.52	$3.16	$3.48	***$3.84***	***$5.64***
Shares[2]	500	521	526	530	567	631	754	764	811	952	***954***	***1200***

Over the past five years, FFO/share CAGR was 10.4%, while DPS CAGR was 12.6% 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, although we should see relatively short absorption following some lease expiries throughout the rest of the year.

In any case, 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. However, with a weighted average debt maturity term of 9.3 years and no significant debt maturities until 2026, the company's financials shouldn't be materially affected by the current interest rates landscape.

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

[2] Share count is in millions.

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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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	20.0	21.2	17.5	20.8	18.9	28.1	26.3	31.3	25.2	20.8	***19.7***	***17.0***
Avg. Yld.	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.8%	2.4%	3.0%	***3.6%***	***4.2%***

Over the past decade, shares of Prologis have traded between 20 and 30 times their underlying funds from operations. The stock's valuation has somewhat normalized from the 2019 to 2021 levels. Nevertheless, at 19.7 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

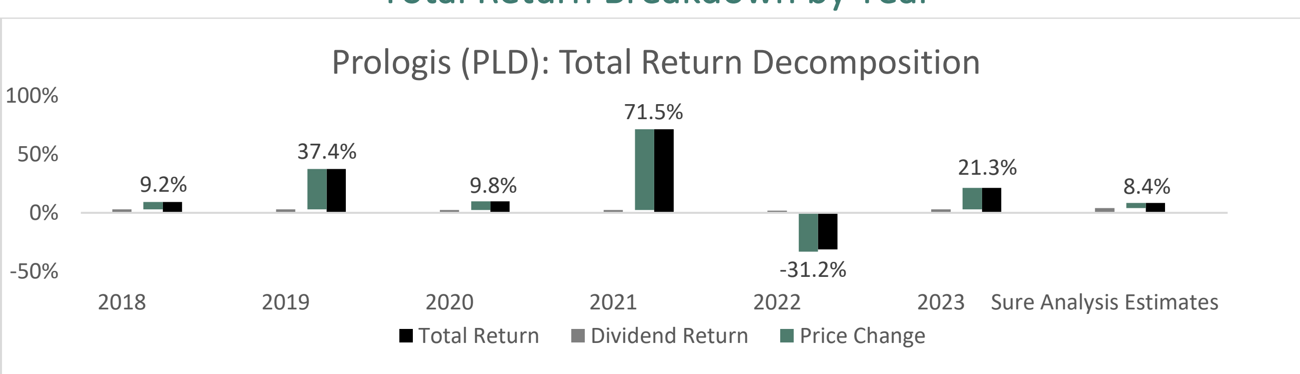
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	70%	68%	65%	63%	63%	64%	61%	61%	61%	62%	**71%**	***71%***

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 96.8%, and management's impressive guidance points towards another year of high growth. Further, the company's payout ratio remains healthy at just over 70%, 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 hamper the stock's total returns prospects. We forecast annualized returns of 8.4% through 2029, driven by 8.0% FFO/share growth and a 3.6% yield, offset by the possibility of a 2.9% valuation headwind. We have upgraded Prologis to a hold due to projected returns.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2533	2618	2804	3331	4439	4759	5974	8,023
Gross Profit	1836	1893	2047	2412	3269	3511	4465	6,013
Gross Margin	72.5%	72.3%	73.0%	72.4%	73.6%	73.4%	74.7%	74.9%
SG&A Exp.	222	231	239	267	275	293	331	390
D&A Exp.	931	879	947	1140	1562	1578	1813	2,485
Operating Profit	668	771	847	992	1402	1617	2280	3,084
Op. Margin	26.4%	29.5%	30.2%	29.8%	31.6%	34.0%	38.2%	38.4%
Net Profit	1210	1652	1649	1573	1482	2940	3365	3,059
Net Margin	47.8%	63.1%	58.8%	47.2%	33.4%	61.8%	56.3%	38.1%
Free Cash Flow	1417	1687	1804	2264	2937	2996	4126	5,373
Income Tax	55	55	63	75	131	174	135	211

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	30250	29481	38418	40032	56070	58490	87900	93,020
Cash & Equivalents	807	447	344	1089	598	556	278	530
Acc. Receivable	111	85	107	86	189	424	378	326
Goodwill & Int.	268	202	451	314	727	553	1183	1,011
Total Liabilities	11792	10775	12617	13960	19740	20740	30030	35,200
Accounts Payable	556	703	761	705	1143	1253	1712	1,766
Long-Term Debt	10608	9413	11090	11906	16850	17720	23880	29,000
Total Equity	14913	15562	22229	22584	31910	33360	53170	53,120
LTD/E Ratio	0.71	0.60	0.50	0.53	0.53	0.53	0.45	0.55

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.9%	5.5%	4.9%	4.0%	3.1%	5.1%	4.6%	3.4%
Return on Equity	8.2%	10.8%	8.7%	7.0%	5.4%	9.0%	7.8%	5.3%
ROIC	4.1%	5.8%	5.1%	4.2%	3.3%	5.4%	4.9%	3.6%
Shares Out.	547	552	590	655	754	765	812	952
Revenue/Share	4.63	4.74	4.75	5.09	5.88	6.22	7.36	8.43
FCF/Share	2.59	3.05	3.06	3.46	3.89	3.92	5.08	5.65

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