



Mid-America Apartment Communities (MAA)

Updated October 31st, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$152	5 Year CAGR Estimate:	8.6%	Market Cap:	\$18.1 B
Fair Value Price:	\$153	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	1/9/2025
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	1/29/2025
Dividend Yield:	3.9%	5 Year Price Target	\$195	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

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 104,469 apartment units across 16 states and the District of Columbia and has a market capitalization of \$18.1 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 October, MAA reported (10/30/24) financial results for the third quarter of fiscal 2024. Same-store net operating income remained flat over the prior year's quarter. Core funds from operations (FFO) per share dipped -3.5%, from \$2.29 to \$2.21, due to higher interest expense, but beat the analysts' consensus by \$0.03. MAA has missed the analysts' FFO estimates only once in the last 26 quarters. MAA has decelerated in the last five quarters due to high supply of new apartments in its markets but the volume of new apartments has begun to lose steam, with fewer new apartments expected next year. MAA narrowed its guidance for core FFO per share in 2024 from \$8.74-\$9.02 to \$8.80-\$8.96, thus implying a -5% decrease at the mid-point. MAA has repeatedly proved conservative in its guidance and tends to raise its guidance many times throughout the year. Nevertheless, with only one quarter left for the year, we have lowered our forecast for annual core FFO per share from \$9.00 to \$8.90, in line with the revised guidance of MAA.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$5.39	\$6.02	\$5.88	\$6.15	\$6.27	\$6.79	\$6.43	\$7.01	\$8.50	\$9.39	\$8.90	\$11.36
DPS	\$2.92	\$3.08	\$3.28	\$3.48	\$3.69	\$3.84	\$4.00	\$4.10	\$4.68	\$5.60	\$5.88	\$7.68
Shares²	75.0	75.2	78.8	113.7	113.8	114.1	114.5	118.6	118.6	119.8	121.0	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 6.4% average annual rate over the last decade. Growth stumbled in 2020 due to the pandemic, but the pandemic has subsided and thus MAA has recovered. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/FFO	12.9	13.2	16.4	16.7	15.3	17.5	18.7	24.7	21.3	15.4	17.1	17.2
Avg. Yld.	4.2%	3.9%	3.4%	3.4%	3.8%	3.2%	3.3%	2.4%	2.6%	3.9%	3.9%	3.9%

¹ Estimated date.

² In millions.

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MAA is currently trading at a P/FFO ratio of 17.1, which is marginally lower than the historical 10-year average of 17.2. If the stock trades at its average valuation level in five years, it will enjoy a 0.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54.2%	51.2%	55.8%	56.6%	58.9%	56.6%	62.2%	58.5%	55.1%	59.6%	66.1%	67.7%

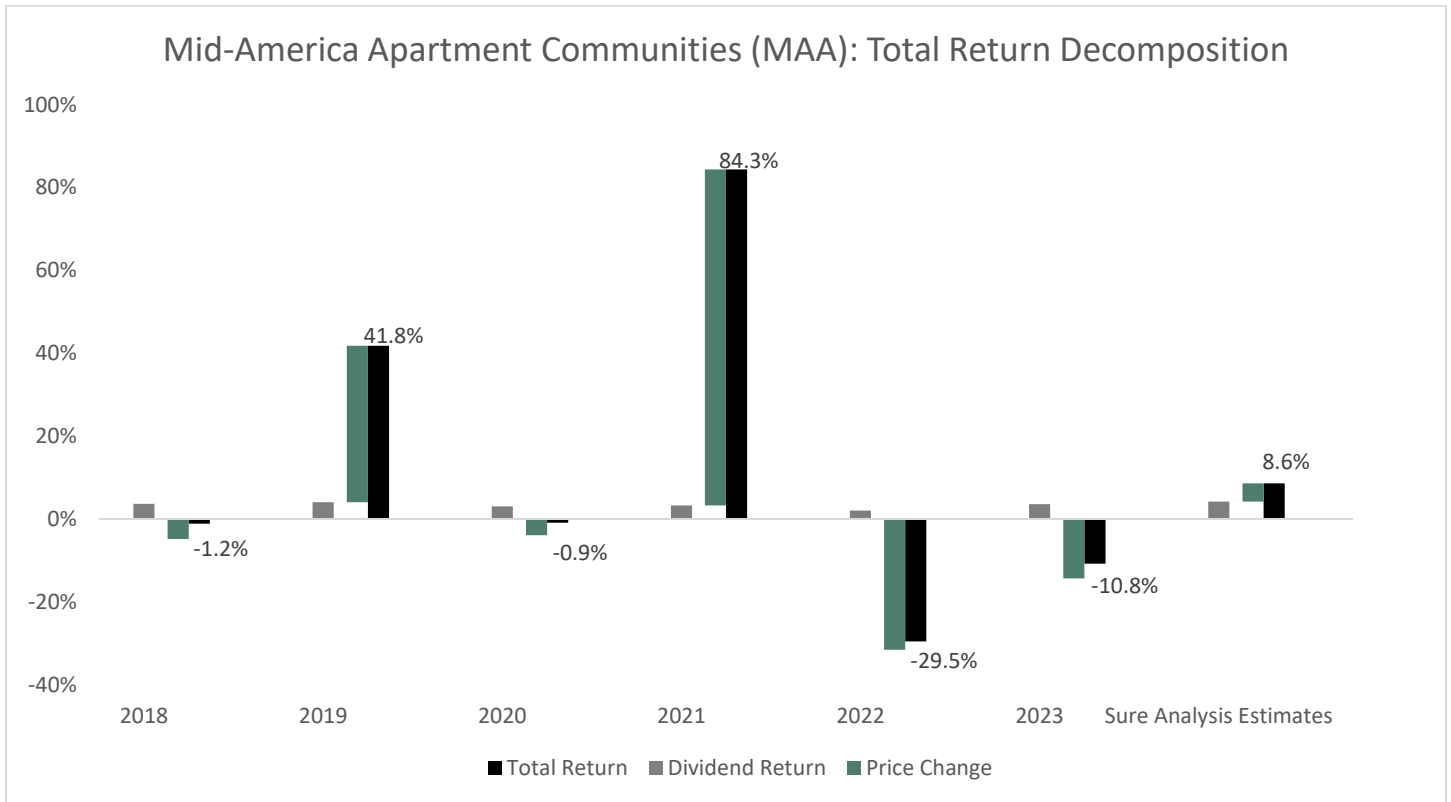
MAA heavily dilutes its shareholders on a regular basis. Its share count has more than tripled over the last 13 years, from 32 million in 2010 to 120 million now. This is a point of concern but the REIT has grown its FFO at a higher rate and thus it has exhibited a decent growth record. MAA has also raised its dividend for 13 consecutive years and has a healthy payout ratio of 66%. It also has one of the strongest balance sheets in the REIT universe, with net debt of \$5.5 billion, which is only five times the annual FFO. As a result, the 3.9% 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 rallied 29% in the last 12 months, primarily thanks to expectations that the Fed will reduce interest rates significantly until 2026. Lower interest rates are favorable, as they reduce interest expense. Despite its rally, the stock can still offer an 8.6% average annual return over the next five years thanks to 5.0% annual growth of FFO per share, its 3.9% dividend and a 0.1% valuation tailwind. The stock receives a hold rating. Overall, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	992	1,043	1,125	1,529	1,571	1,641	1,678	1,778	2,020	2,148
Gross Profit	265	317	345	415	439	476	527	573	753	815
Gross Margin	26.7%	30.4%	30.7%	27.1%	28.0%	29.0%	31.4%	32.3%	37.3%	37.9%
SG&A Exp.	21	26	29	40	35	46	99	109	124	126
D&A Exp.	302	295	323	495	491	498	512	534	544	566
Operating Profit	244	291	316	375	405	430	428	465	629	689
Op. Margin	24.6%	27.9%	28.1%	24.5%	25.7%	26.2%	25.5%	26.1%	31.1%	32.1%
Net Profit	148	332	212	328	223	354	255	534	637	553
Net Margin	14.9%	31.9%	18.9%	21.5%	14.2%	21.6%	15.2%	30.0%	31.5%	25.7%
Free Cash Flow	295	298	301	317	480	478	397	615	762	598

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,822	6,848	11,604	11,492	11,324	11,230	11,195	11,285	11,241	11,485
Cash & Equivalents	27	38	34	11	34	20	25	54	39	41
Total Liabilities	3,770	3,690	4,962	4,918	4,952	4,941	5,091	5,101	5,031	5,185
Long-Term Debt	3,513	3,428	4,500	4,502	4,528	4,455	4,563	4,517	4,415	4,540
Shareholder's Equity	2,891	2,992	6,404	6,340	6,150	6,069	5,872	5,995	6,026	6,113
LTD/E Ratio	1.22	1.15	0.70	0.71	0.74	0.73	0.78	0.75	0.73	0.74

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.2%	4.9%	2.3%	2.8%	2.0%	3.1%	2.3%	4.7%	5.7%	4.9%
Return on Equity	5.1%	11.3%	4.5%	5.2%	3.6%	5.8%	4.3%	9.0%	10.6%	8.8%
ROIC	2.3%	5.1%	2.4%	3.0%	2.0%	3.3%	2.4%	5.0%	6.0%	5.2%
Shares Out.	75.0	75.2	78.8	113.7	113.8	114.1	114.5	118.6	115.6	116.6
Revenue/Share	13.23	13.87	14.28	13.45	13.80	14.38	14.15	15.46	17.48	18.42
FCF/Share	3.94	3.96	3.82	2.79	4.21	4.19	3.35	5.18	6.60	5.13

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

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