



Prologis (PLD)

Updated November 18th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$114	5 Year CAGR Estimate:	9.1%	Market Cap:	\$105.7 B
Fair Value Price:	\$103	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/16/2024
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	12/30/2024
Dividend Yield:	3.4%	5 Year Price Target	\$152	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 \$61.1 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 October 16th, 2024, Prologis released its Q3 results for the period ending September 30th, 2024. For the period, rental revenues grew by 6.8% to nearly \$1.90 billion. Total revenues grew by 6.3% due to strategic capital revenues remaining relatively flat. Core FFO/share rose by about 9% to \$1.43, with declining expenses linked to strategic capital leading to an improvement in profitability. Still, higher interest expenses did negatively impacted the bottom line. In fact, interest costs rose by 27% to \$230.1 million, reflecting the current interest rates environment, as well as the extra borrowings the company assumed to fund acquisitions over the past four quarters.

Still, Prologis' debt as a percentage of its gross market cap remained healthy at 23.1%. Its weighted average borrowing rate was stable sequentially, at a healthy 3.1%. Finally, Prologis' weighted average remaining lease term was 4.0 years.

Although the business environment remains uncertain, management believes the bottoming process is underway. They are seeing improvements in supply dynamics and remain confident in the long-term demand drivers for their business. Also, they highlighted opportunities in supply chain, digital, and energy infrastructure, reinforcing their optimism for the future. Finally, they slightly raised their prior guidance, expecting core FFO for the year to be between \$5.42 and \$5.46 (up from \$5.39 to \$5.47). We have utilized the midpoint in our estimates, which implies a year-over-year decline of 3%.

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	\$5.44	\$7.99
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
Shares²	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 9.5 years and no significant debt maturities until 2026, Prologis shouldn't face significant issues.

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	21.0	19.0
Avg. Yld.	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.8%	2.4%	3.0%	3.4%	3.7%

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. That said, at 21x this year's expected FFO/share, we still find Prologis overvalued and believe the stock would be more fairly priced at 19x FFOs. Investors should require a higher risk premium these days. In our view, a P/FFO of 19 is still rich and reflects the stock's growth prospects and its unique qualities.

Safety, Quality, Competitive Advantage, & Recession Resiliency

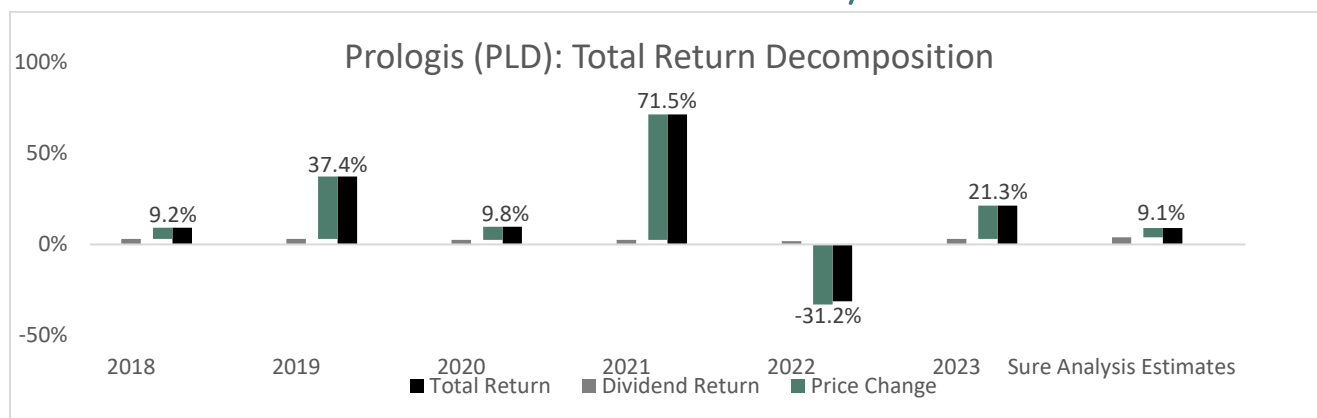
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	70%	68%	65%	63%	63%	64%	61%	61%	61%	62%	71%	71%

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 95.9%, 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. Also, 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 loose 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 expect annual total returns of 9.1% through 2029, driven by our 8.0% FFO/share growth estimate and a 3.4% yield, which could be softly offset by the possibility of valuation headwinds. We thus assign a hold rating to Prologis.

Total Return Breakdown by Year



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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.

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