

Prologis, Inc. (PLD)

As of Sept 28, 2023

Company Overview

Prologis, Inc (PLD) is a Real Estate Investment Trust, otherwise known as a REIT. The company operates as an industrial REIT, meaning it is a play on the growth of e-commerce. Prologis is the largest industrial REIT in the world and is one of less than 10 A rated REITs in the US.

Prologis was founded in 1991 and has operations across the globe in North America, Europe, Latin America, and Asia. The company has a class A portfolio that consists of 5,563 buildings made up of \$1.2 billion square feet. In addition to owning their own properties, they also have an asset management segment of the business, which currently consists of \$209 billion in AUM.

Prologis leases their properties out to ~6,700 different customers, but the five largest tenants based on annual base rent are as follows:

1. Amazon
2. The Home Depot
3. FedEx
4. Geodis
5. DHL

The top 10 customers only make up 15% of the company's annual rent, which tells me as an investor, they are very well diversified from a tenant perspective. Amazon is the largest tenant accounting for 5.2% of total rent, but no other tenant accounts for more than 1.6%.

As I mentioned at the start, Prologis is a unique way to play the growth of e-commerce. As of the end of 2022, e-commerce sales accounted for slightly above 20% of all retail sales and that figure is expected to grow to near 30% within the next five years. E-commerce channels use 3x more logistics space than a traditional brick and mortar client, which is a long-term tailwind for the company.

Prologis currently has a market cap of \$105 billion, making it one of the largest REITs. PLD's closest competitor is STAG Industrial.



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Recent Earnings Results

On July 18, 2023, Prologis announced their Q2 earnings results for the period ending June 30, 2023. As a reminder, in case you are unfamiliar with REITs, investors do not focus on EPS for REITs and instead focus on AFFO. The reason for this is due to the fact that EPS includes Depreciation Expense, and Real Estate assets incur a lot of depreciation expense, but as we know, real estate is generally an appreciating asset class, so AFFO adds those types of costs back in.

Here is a closer look at PLD's Q2 earnings results:

- **Q2 Revenues:** \$2.45 billion
- **AFFO:** \$1.77 per share

Q2 results beat rather handily on both the top and bottom lines in Q2. Revenues nearly doubled year over year, but that is largely due to the fact that the portfolio has continued to grow over the past 12 months. Acquisition activity has grown every year for the past 4+ years. The portfolio maintained an occupancy rate of 97.5%, which speaks to the strong demand for not only the property type but also the landlord. The company has a very high retention rate in the mid-70s.

During the company's earnings call, CFO Tim Arndt spoke to the fact that new supply coming online in 2024 is expected to decline for the industry and vacancies should normalize around mid 4% range, which is all positive for Prologis moving forward. The management team is still as upbeat as they have been about the future of the business and their industry.

In addition, Prologis has a strong balance sheet, which backs up their A credit rating. The REIT has liquidity of approximately \$6.4 billion and debt-to-EBITDA of 4.2x. During the quarter, PLD raised approximately \$7 billion in debt financing across four currencies at an interest rate of 4.9% and an average term of eight years.

Management increased their core FFO guidance to a new range of \$5.56 to \$5.60, which would represent roughly 10% annual growth for the fourth consecutive year of double digit earnings growth.

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Stock Information

Current Price:	\$111.93	Payout Ratio:	74%	TTM FFO:	\$4.68
M* Fair Value:	\$124.00	Ex-Dividend Date:	9/15/23	Next Year AFFO:	\$4.71
Industry:	REIT	Dividend Payment Date:	9/29/23	Fwd P/AFFO:	23.7x
Annual Dividend:	\$3.48	5-Yr Dividend Growth Rate:	12.58%	10-Yr Avg P/AFFO:	27.2x
Dividend Yield:	3.11%	Cons Yrs of Dividend Growth:	9	12-Mo Avg Analyst PT:	\$145.13

Valuation

Let's dive into the valuation of Prologis to determine whether or not it looks like an intriguing buy at the moment.

The REIT sector has been under intense pressure for much of the past 18-months, largely due to rising interest rates. The Vanguard Real Estate ETF (VNQ) is down 5% over the past year, underperforming the S&P 500 in a big way during that time, which is up 18% over the same 12-months. However, Prologis has managed to separate from the regular real estate pack as shares of PLD have climbed 11% over the same 12 month period.

Part of the outperformance has to do with the quality of the company, but largely due to the growth now and in the future of the sector. REITs are often viewed as an income play, but PLD offers a unique growth component to them as well.

Analysts are calling for AFFO of \$4.71 in 2024, which equates to a forward AFFO multiple of 23.7x. That seems like a high multiple, especially for a REIT, but PLD has traded at an average AFFO multiple of 27.2x over the past decade, and the growth is not expected to slow much moving forward, suggesting shares may be undervalued at current levels.

I am a big believer in the future of PLD and take opportunities on pullbacks to add to my positions. With the Fed due to keep interest rates at an inflated level for longer, REITs will continue to tread water, but the end is in sight and things could turn around for the sector in 2024, as such, I will be ready.

My Position: I own shares of PLD

My Rating: BUY

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Investor Takeaway

Prologis is a high-quality REIT, a leading industrial real estate landlord. The company already has close ties with the likes of Amazon and The Home Depot as their largest tenants, but as we saw above, the tenant base is very diversified, which adds a level of safety for investors.

E-commerce sales still account for only 15-20% of total retail sales, but over the next five years, that percentage is expected to grow to 30%, which only adds to the already strong demand for more high-quality industrial and warehouse space. When comparing brick and mortar stores to e-commerce stores, e-commerce tends to require 3x the space than its counterpart, which is another tailwind for the likes of PLD moving forward.

The downside right now is the pressures being applied by high interest rates. REITs are often viewed as an income play, so with so many high yield options available, the view for real estate equities has been pushed back, although PLD has outperformed the sector as a whole.

Not only are REITs viewed as income plays, they also tend to have higher yields with slower dividend growth. PLD is unique in the fact that they are a rare dividend growth REIT. Shares currently yield a dividend of 3.1% and they also have a five-year dividend growth rate of 12.5%, which is extremely rare for a REIT.

Given that I currently own shares of PLD, I am taking advantage of any pullbacks in the stock to add to my position. The growth in e-commerce will be a nice tailwind for years to come and I want to be part of that ride when the market turns around and rates pullback, all things that benefit a company like Prologis.

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Average Analyst Price Target

PLD Analyst Ratings

PLD Stock 12 Months Forecast

Strong Buy

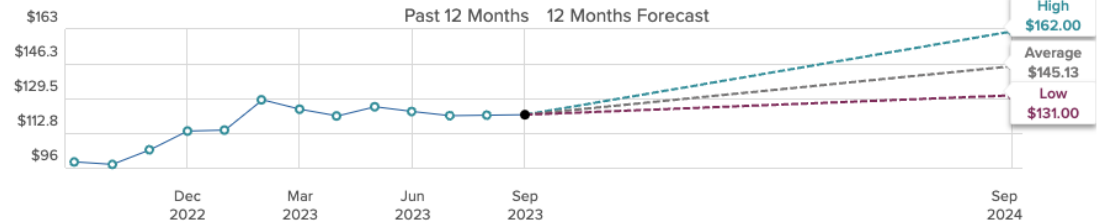


■ 13 Buy ■ 2 Hold ■ 0 Sell

Based on 15 analysts giving stock ratings to Prologis in the past 3 months

\$145.13
▲(29.34% Upside)

Based on 15 Wall Street analysts offering 12 month price targets for Prologis in the last 3 months. The average price target is \$145.13 with a high forecast of \$162.00 and a low forecast of \$131.00. The average price target represents a 29.34% change from the last price of \$112.21.



Highest Price Target **\$162.00** | Average Price Target **\$145.13** | Lowest Price Target **\$131.00**

10-Year History



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5-Year Financial Information

Historical Information - Prior 5 Years								
Year	Revenue	Rev Growth %	EBITDA	EBITDA Margin %	Oper Income	Oper Income Growth %	Debt	Debt/EBITDA
2017	\$2,618		\$2,753	105.16%	\$1,954		\$9,413	3.42
2018	\$2,804	7.1%	\$2,581	92.05%	\$1,688	-13.6%	\$11,090	4.30
2019	\$3,331	18.8%	\$2,908	87.30%	\$1,850	9.6%	\$11,906	4.09
2020	\$4,439	33.3%	\$3,562	80.24%	\$2,119	14.5%	\$16,849	4.73
2021	\$4,759	7.2%	\$4,645	97.60%	\$3,207	51.3%	\$17,715	3.81
2022	\$5,974	25.5%	\$5,036	84.30%	\$3,468	8.1%	\$23,876	4.74
5-Year Average		18.4%	13.5%	91.11%		14.0%		4.18
Year	FFO	FFO Growth %	CFO	CapEx	FCF	FCF Growth		
2017	\$2.81		\$1,687	\$111	\$1,577			
2018	\$3.03	7.8%	\$1,804	\$93	\$1,710	8.5%		
2019	\$3.31	9.2%	\$2,264	\$143	\$2,121	24.0%		
2020	\$3.80	14.8%	\$2,937	\$149	\$2,788	31.4%		
2021	\$4.15	9.2%	\$2,996	\$170	\$2,826	1.4%		
2022	\$5.16	24.3%	\$4,126	\$211	\$3,915	38.5%		
Average		13.1%	96.37%	93.07%	97.04%	20.8%		