

## Mid-America Apartment (MAA)

**\$116.71** (As of 08/11/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: B

### Summary

Mid-America Apartment Communities, also known as MAA, reported solid results for second-quarter 2020, reflecting a rise in average effective rent per unit and growth in same-store NOI. Moreover, a high-quality resident profile has driven solid rent collections, even amid the pandemic. MAA has a strong balance sheet that enables it well to navigate through the pandemic-related challenges. Its focus on interior redevelopments and repositioning efforts will likely drive additional value and rent growth. Also, shares of the company have declined narrower than its industry in the past year. Yet, the coronavirus pandemic has affected the economy and the job market. Amid this, the demand for apartments and rent-paying ability of tenants will likely be adversely impacted, hindering rental rates and occupancy growth. Elevated supply level is also concerning.

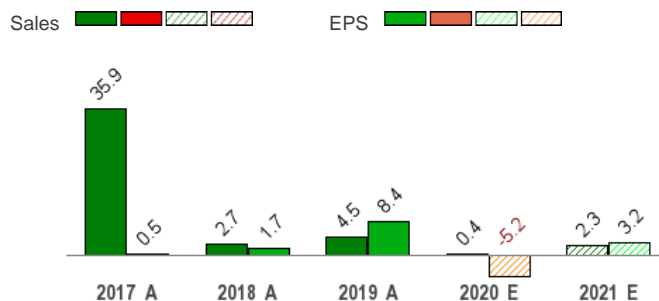
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$148.88 - \$82.00
20 Day Average Volume (sh)	541,477
Market Cap	\$13.3 B
YTD Price Change	-11.5%
Beta	0.67
Dividend / Div Yld	\$4.00 / 3.4%
Industry	<a href="#">REIT and Equity Trust - Residential</a>
Zacks Industry Rank	Bottom 10% (228 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	11/04/2020
Earnings ESP	2.7%
P/E TTM	18.2
P/E F1	18.8
PEG F1	4.8
P/S TTM	8.0

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	422 E	427 E	434 E	438 E	1,686 E
2020	418 A	413 A	409 E	408 E	1,648 E
2019	401 A	407 A	416 A	417 A	1,641 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.55 E	\$1.57 E	\$1.59 E	\$1.66 E	\$6.41 E
2020	\$1.62 A	\$1.59 A	\$1.51 E	\$1.54 E	\$6.21 E
2019	\$1.58 A	\$1.57 A	\$1.53 A	\$1.68 A	\$6.55 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

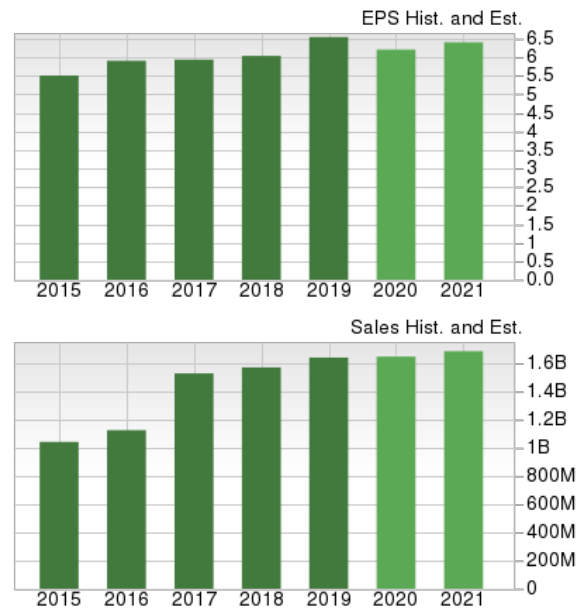
## Overview

Headquartered in Germantown, TN, Mid-America Apartment Communities, Inc. — commonly known as MAA — is a residential real estate investment trust (REIT) engaged in owning, acquiring, operating and selective development of apartment communities, located primarily in the Southeast, Southwest and Mid-Atlantic regions of the United States. The company is an S&P 500 Index member.

As of Jun 30, 2020, the company had full or partial ownership stake in 102,105 apartment units, including projects under development. As of the same date, 32 of its apartment properties had retail components, with nearly 630,000 square feet of gross leasable space. The company also had four commercial properties, with around 260,000 square feet of combined gross leasable area. The properties are located across 16 states and the District of Columbia.

In December 2016, MAA completed the merger with Post Properties, Inc. Notably in fourth-quarter 2018, it completed its integration efforts with Post Properties, providing the company redevelopment opportunities in this portfolio. Through enhanced scale and leveraging, the combined company is poised to generate higher operating margins.

During 2019, MAA made a number of acquisitions, comprising multi-family, commercial and land buyouts. The multifamily acquisitions included The Greene in Greenville, SC, comprising 271 units, Jefferson Sand Lake in Orlando, FL, having 264 units and Novel Midtown in Phoenix, AZ, consisting of 345 units.



Note: All EPS numbers presented in this report represent funds from operations (FFO) per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



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## Reasons To Buy:

- ▲ MAA maintains a well-balanced, diverse portfolio across the Southeast and Southwest regions of the United States. The portfolio is diversified in terms of markets, submarkets, product types and price points. Furthermore, the company's portfolio includes four wholly owned commercial properties, spanning nearly 260,000 square feet of gross leasable space. This diversification shields the company from economic downturn in any particular market, choppiness in any product-type or assets belonging to specific price points and helps in generating a consistent revenue stream. Moreover, even amid the pandemic, it is witnessing strong pricing for assets in suburban markets. Moreover, a high-quality resident profile has resulted in solid collection performance, even amid the pandemic. In fact, the company informed that as of Jul 27, it collected 98.9% and 98.1% of its billed rent in cash collections for the second quarter and July, respectively. Also, July collections are trending at a better pace than the previous months.
- ▲ This Sunbelt-focused apartment REIT opts for opportunistic investments to maintain the right product mix and raise the number of apartment communities in the dynamic markets. As part of such efforts, in fourth-quarter 2018, MAA completed its integration efforts with respect to the previously announced merger with Post Properties. Moreover, the company's development projects are on course. Such efforts are likely to drive the company's growth over the long term.
- ▲ MAA is also focusing on redevelopment initiatives and smart-home installations to generate accretive returns and boost earnings from its existing asset base. Notably, both programs were resumed in recent months, after they were suspended in March due to the COVID-19 outbreak. The company installed 8,017 units in first-quarter 2020 and expects to install additional 16,000 units by 2020 end. Such installations will contribute to revenue growth in 2021. During the six months ended Jun 30, 2020, MAA redeveloped the interior of 2,095 units and has 10,000-12,000 units remaining in this pipeline. This is likely to drive average rental rate growth. Further, in second-quarter 2020, MAA continued additional extensive upgrades and repositioning at five properties, and initiated the same at additional three ones. Upgrades will include renovations of amenity and common areas and drive additional value and rent growth, delivering higher yield benefits beginning 2021.
- ▲ Over the long run, positive demographic trends — supported by the growth of prime age groups for rentals and migration of population to the Southeast and Southwest — is likely to drive household formation and apartment rental demand in its markets. Also, a significant change in lifestyle has taken place and life cycle events are getting delayed. This is leading to an extension of the average age of first-time homeownership. The young-adult age cohort has also experienced a considerable part of the net job growth and is helping to grow primary renter demand.
- ▲ MAA enjoys a solid balance sheet, with low leverage and ample availability under its revolving credit facility. As of Jun 30, 2020, the company held cash and cash equivalents of \$19.7 million as well as \$926.6 million of available capacity under its unsecured revolving credit facility, net of commercial paper borrowings. Backed by an in place at-the-market equity share offering program, the company remains well-poised to source attractively priced capital from the equity markets. Further, it generates 91.1% unencumbered net operating income (NOI), providing scope for tapping additional secured debt capital if required. Hence, with limited near-term maturities and funding obligations, the company is well-positioned to navigate through the pandemic-related challenges. Further, it maintains investment grade ratings of BBB+/Baa1/BBB+, with stable outlook, from Standard and Poor's, Moody's, and Fitch Ratings.
- ▲ With 106 consecutive quarterly common dividend payments, the company has a good track record of paying dividends to its shareholders. In December 2019, the company announced common stock cash dividend of \$1 per share. This marked a 4.2% sequential hike and 10th consecutive annual increase in the company's dividend. Specifically, the company's common dividend registered overall growth of 217%, denoting an annualized 4.7% return since the initial payment in 1994. Notably, MAA is one of the few apartment REITs which did not reduce or suspend dividend payments during the recession of 2008-09. Given its financial strength and lower debt-equity ratio, the company's dividend payout is expected to be sustainable.
- ▲ Over the past year, shares of MAA have lost 6.1%, narrower than the industry's decline of 16.9%. Additionally, the company witnessed a year-over-year improvement in its second-quarter core FFO per share. The trend in estimate revisions for the current-year FFO per share also indicates an upbeat outlook for the company. The Zacks Consensus Estimate for 2020 FFO per share moved 1.1% upward over the past week. Hence, given the progress on fundamentals and upward estimate revisions, the stock has decent upside potential for the upcoming period.

MAA has a well-diversified portfolio and focus on making strategic redevelopments augurs well. Also, high demand in its markets and a solid balance sheet will help it sail through uncertain times.

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## Reasons To Sell:

- ▼ The coronavirus pandemic has been wreaking havoc, and resulting in macroeconomic uncertainty and choppy job-market environment. This is likely to affect the demand for apartments and the rent-paying capability of tenants. As such, the company's top line is likely to bear the brunt in the near term, with adverse impact on rental rates and occupancy. In fact, second-quarter average physical occupancy for the same-store portfolio was 95.4%, contracting 60 basis points (bps) year over year. Moreover, the coronavirus outbreak-related commercial rent abatements for the second quarter were 23.4% of total billed rents.
- ▼ Management anticipates supply levels to remain elevated in 2020. This high supply adversely impacts the landlord's capability to demand more rents and results in lesser absorption, particularly at apartment communities located in urban submarkets. This is likely to put pressure on rental rates and negatively affect revenue growth in the near term. Moreover, there is stiff competition in the residential real estate market with various housing alternatives like manufactured housing, condominiums and the new and existing home markets. This curtails the company's power to raise rent or increase occupancy as well as leads to aggressive pricing for acquisitions.
- ▼ The company has a significant active development pipeline, with six development communities under construction as of the second-quarter 2020 end. Total development costs for the communities are estimated to be \$459.5 million, of which \$243.7 million remains unfunded. Although such activities are accretive for long-term value creation, it requires huge capital outlays. Furthermore, an extensive development pipeline increases the company's operational risks by exposing it to construction cost overruns, entitlement delays and lease-up risks. Additionally, rising real estate taxes are expected to continue producing expense pressure in the ongoing year.
- ▼ The company's operations are largely concentrated in the Southeast and Southwest regions of the United States. In fact, as of Jun 30, 2020, around 36% of the company's total portfolio (% of same-store NOI) is located in the top four markets of Atlanta, Dallas, Austin and Charlotte. Therefore, performance of the company is susceptible to any adverse development in the general economic conditions of these regions.

Adverse impacts of the pandemic on the economy and job market are likely to affect demand and hurt rent-paying capabilities of tenants, leading to rental abatements and pricing-power moderation.

## Last Earnings Report

### Mid-America Apartment Q2 FFO & Revenues Top Estimates

MAA reported second-quarter 2020 core FFO per share of \$1.59, surpassing the Zacks Consensus Estimate of \$1.54. Further, the reported tally comes in higher than the prior-year quarter's \$1.53.

The residential REIT's quarterly results reflected growth in same-store NOI and rise in average effective rent per unit for the same-store portfolio.

Rental and other property revenues came in at \$413 million in the June-end quarter, outpacing the Zacks Consensus Estimate of \$410.6 million. The reported figure was also up 1.4% higher than the year-ago quarter's \$407.4 million.

The company stated that as of Jul 27, rent cash receipts and deferred payments aggregated 99.4% and 98.4% of billed residential rent for the second quarter and July, respectively. As of the same date, average physical occupancy for the same-store portfolio was 95.3% for July.

### Quarter in Detail

The same-store portfolio revenues grew 2.1% on rise in average effective rent per unit of 3.4%, year over year. During the second quarter, the company's same-store NOI increased 2% year over year. However, average physical occupancy for the same-store portfolio was 95.4%, contracting 60 bps, year over year.

During the second quarter, rent growth in the company's same-store portfolio for both new and renewing leases, compared with the prior lease, came in at 1.2% on a combined basis.

As of Jun 30, 2020, unencumbered NOI was 91.1% of total NOI, higher than the 90.6% reported as of Mar 31, 2020.

As of Jun 30, 2020, MAA held cash and cash equivalents of \$19.7 million, down from \$20.5 million as of Dec 31, 2019. Additionally, as of the same date, total debt outstanding was \$4.5 billion.

Furthermore, as of the same date, \$926.6 million of combined cash and capacity were available under its unsecured revolving credit facility, net of commercial paper borrowings.

### Portfolio Activity

During the April-June quarter, the company did not undertake any acquisition or disposition activities of apartment communities, land parcels or commercial properties.

In May, the company resumed its interior redevelopment program, which was previously suspended due the pandemic. During the second quarter, it redeveloped 655 units. As of Jun 30, 2020, the company had six development communities under construction with an expected average stabilized NOI yield of 6.1%.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	0.58%
EPS Surprise	3.25%
Quarterly EPS	1.59
Annual EPS (TTM)	6.42

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## Recent News

### Dividend Update

On May 19, Mid-America Apartment announced a quarterly dividend of \$1 per share on common stock. The dividend was paid out on Jul 31 to shareholders of record as of Jul 15.

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### Valuation

Mid-America Apartment Communities shares have lost 6.1% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 16.9% and 6.7% in the past year, respectively.

The S&P 500 Index is up 14% in the past year.

The stock is currently trading at 18.43X forward 12-month FFO, which compares to 17.95X for the Zacks sub-industry, 16.83X for the Zacks sector and 22.80X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.45X and as low as 12.88X, with a 5-year median of 16.52X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$124 price target reflects 19.58X FFO.

The table below shows summary valuation data for MAA.

Valuation Multiples - MAA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.43	17.95	16.83	22.80
	5-Year High	22.45	22.36	16.83	22.80
	5-Year Low	12.88	15.54	11.59	15.25
	5-Year Median	16.52	18.47	14.26	17.58
P/S F12M	Current	7.99	9.52	6.22	3.67
	5-Year High	10.39	12.16	6.66	3.67
	5-Year Low	5.31	7.58	4.96	2.53
	5-Year Median	7.23	9.28	6.06	3.05
P/B TTM	Current	2.16	2.31	2.47	4.68
	5-Year High	2.80	3.30	2.91	4.68
	5-Year Low	1.48	1.82	1.72	2.83
	5-Year Median	1.97	2.42	2.53	3.74

As of 08/11/2020

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## Industry Analysis Zacks Industry Rank: Bottom 10% (228 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Equity Residential (EQR)	Neutral	4
Essex Property Trust, Inc. (ESS)	Neutral	4
Investors Real Estate Trust (IRET)	Neutral	3
NexPoint Residential Trust, Inc. (NXRT)	Neutral	3
United Dominion Realty Trust, Inc. (UDR)	Neutral	4
Apartment Investment and Management Company (AIV)	Underperform	4
AvalonBay Communities, Inc. (AVB)	Underperform	4
Camden Property Trust (CPT)	Underperform	4

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	MAA	X Industry	S&P 500	AVB	EQR	ESS
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	4
VGM Score	C	-	-	D	C	D
Market Cap	13.35 B	1.22 B	23.61 B	21.36 B	20.38 B	14.32 B
# of Analysts	6	5	14	7	11	9
Dividend Yield	3.43%	4.02%	1.69%	4.19%	4.40%	3.79%
Value Score	D	-	-	D	C	D
Cash/Price	0.00	0.03	0.07	0.02	0.01	0.02
EV/EBITDA	16.90	16.90	13.32	19.23	12.86	17.83
PEG Ratio	4.80	4.38	2.95	10.16	4.27	7.28
Price/Book (P/B)	2.16	1.87	3.22	1.96	1.89	2.26
Price/Cash Flow (P/CF)	15.53	13.76	12.79	14.30	10.94	16.11
P/E (F1)	18.71	16.68	22.02	16.76	16.34	16.60
Price/Sales (P/S)	8.02	6.14	2.57	9.05	7.53	9.51
Earnings Yield	5.32%	6.00%	4.29%	5.96%	6.12%	6.03%
Debt/Equity	0.72	0.99	0.77	0.72	0.78	0.99
Cash Flow (\$/share)	7.52	2.46	6.94	10.61	5.00	13.62
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	3.03%	2.81%	10.41%	3.84%	1.29%	7.36%
Proj. EPS Growth (F1/F0)	-5.16%	-2.58%	-6.51%	-3.09%	-3.99%	-1.15%
Curr. Cash Flow Growth	20.94%	7.20%	5.22%	-9.39%	23.84%	5.93%
Hist. Cash Flow Growth (3-5 yrs)	15.27%	15.38%	8.55%	6.67%	5.74%	12.62%
Current Ratio	0.08	1.41	1.34	1.40	1.06	1.83
Debt/Capital	42.02%	47.18%	44.59%	41.83%	44.70%	50.00%
Net Margin	20.38%	14.71%	10.13%	33.32%	41.64%	41.70%
Return on Equity	5.57%	4.71%	14.59%	7.21%	10.62%	9.81%
Sales/Assets	0.15	0.12	0.51	0.12	0.13	0.12
Proj. Sales Growth (F1/F0)	0.44%	2.32%	-1.45%	5.93%	-2.83%	4.24%
Momentum Score	B	-	-	D	A	C
Daily Price Chg	-0.29%	-0.93%	-0.17%	-1.34%	-1.10%	-1.77%
1 Week Price Chg	-2.27%	1.27%	2.30%	0.48%	2.91%	1.11%
4 Week Price Chg	3.34%	3.37%	6.41%	-1.72%	-3.98%	-3.84%
12 Week Price Chg	5.03%	14.47%	15.42%	-1.88%	-5.15%	-4.96%
52 Week Price Chg	-6.08%	-23.13%	2.88%	-25.69%	-32.32%	-29.93%
20 Day Average Volume	541,477	437,842	2,007,486	967,714	2,588,881	437,842
(F1) EPS Est 1 week change	1.11%	0.00%	0.00%	-0.24%	0.11%	-0.21%
(F1) EPS Est 4 week change	1.33%	0.00%	1.84%	-0.23%	0.11%	-0.21%
(F1) EPS Est 12 week change	-0.77%	-2.78%	2.40%	-4.05%	-3.86%	-1.87%
(Q1) EPS Est Mthly Chg	2.08%	0.00%	0.72%	-0.67%	1.48%	-0.25%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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