

Mid-America Apartment (MAA)

\$131.79 (As of 01/14/20)

Price Target (6-12 Months): **\$140.00**

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:D

Value: D

Growth: C

Momentum: D

Summary

Shares of Mid-America Apartment Communities, also known as MAA, have outperformed the industry over the past year. Notably, favorable demographics, encouraging household formation trends and decent job growth in the company's markets are anticipated to spur demand for its properties, drive strong rental growth and support leasing activity. MAA has remained focused on redevelopment initiatives to generate accretive returns and boost earnings from its existing asset base. Further, with an investment-grade balance sheet, MAA is well poised to capture investment opportunities. However, elevated supply in a number of the company's markets will likely impact its pricing power and occupancy. Furthermore, an extensive development pipeline exposes it to construction cost overruns. Also, high geographic concentration of assets is a concern.

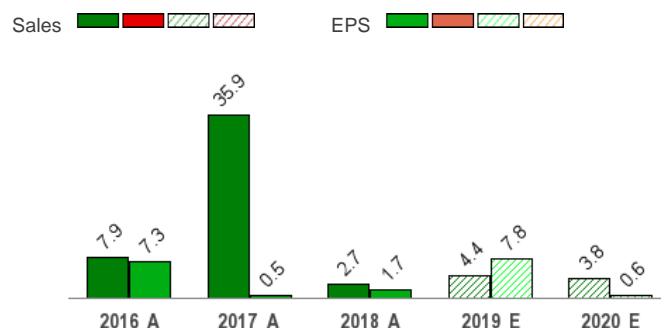
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$140.15 - \$97.52
20 Day Average Volume (sh)	457,636
Market Cap	\$15.0 B
YTD Price Change	-0.1%
Beta	0.29
Dividend / Div Yld	\$4.00 / 3.0%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 46% (116 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%

P/E TTM	21.2
P/E F1	20.1
PEG F1	5.2
P/S TTM	9.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	418 E	424 E	430 E	433 E	1,703 E
2019	401 A	407 A	416 A	416 E	1,640 E
2018	386 A	390 A	397 A	398 A	1,571 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.61 E	\$1.62 E	\$1.63 E	\$1.69 E	\$6.55 E
2019	\$1.58 A	\$1.57 A	\$1.53 A	\$1.64 E	\$6.51 E
2018	\$1.44 A	\$1.55 A	\$1.50 A	\$1.55 A	\$6.04 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 01/14/2020. The reports text is as of 01/15/2020.

Overview

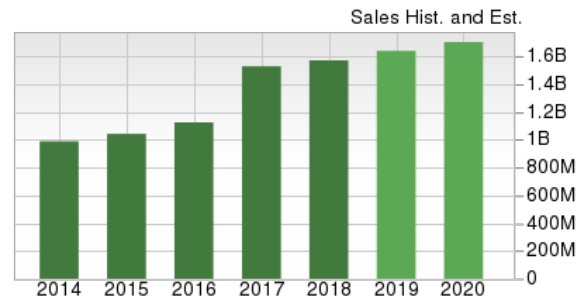
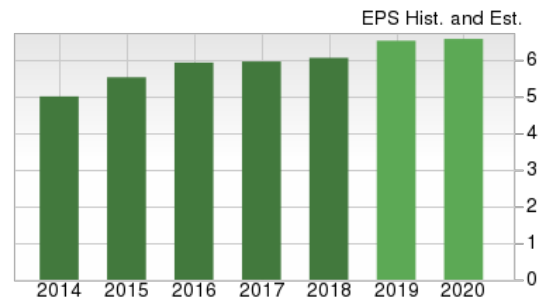
Headquartered in Germantown, TN, Mid-America Apartment Communities, Inc. — commonly known as MAA — is a residential real estate investment trust (REIT) engaged in owning, acquiring, operating and selective development of apartment communities, located primarily in the Southeast, Southwest and Mid-Atlantic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

As of Sep 30, 2019, the company had ownership stake in 102,629 apartment units, including projects under development. These properties are located across 17 states and the District of Columbia.

As of the same date, 31 of its multi-family assets had strong retail presence. Furthermore, the company's portfolio includes four wholly-owned commercial properties, spanning nearly 260,000 square feet of gross leasable space.

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.

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.



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. As of Sep 30, 2019, 31 of its multifamily assets had strong retail presence. 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.
- ▲ 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. In 2019, the company expects to invest \$50-\$100 million in multi-family property acquisitions. Furthermore, as part of the company's capital-recycling efforts, management expects 2019 disposition of \$125-\$175 million. In fact, in October, it exited the Little Rock, AK market with the sale of a property. Additionally, MAA has remained focused on redevelopment initiatives to generate accretive returns and boost earnings from its existing asset base. In fact, it completed interior upgrades at 6,596 units in first nine months of 2019 and expects to redevelop a total of 7,500-8,500 units in 2019.
- ▲ Strong job growth in the Sun Belt markets has kept demand for MAA's portfolio higher. In fact, favorable tax structure attracts employers and drives job growth, which is superior to the national average. Moreover, 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. Amid this favorable demand environment, the company is focused to boost rent growth over higher occupancy.
- ▲ MAA enjoys a solid balance sheet with lower leverage, improved investment grade metrics and limited near-term maturities. As of Sep 30, 2019, the company held cash and cash equivalents of \$25.8 million. Furthermore, as of the same date, around \$823 million of combined cash and capacity were available under its unsecured revolving credit facility. Also, at the end of the third quarter, unencumbered net operating income (NOI) was 90.6% of total NOI.
- ▲ The company has a good track record of paying dividends to its shareholders. This December, 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 common dividend 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.
- ▲ Shares of MAA have outperformed the industry it belongs to in the past six months. During this period, shares of the company have gained 8.8%, while the industry rallied 0.2%. Given the progress in fundamentals, the stock is likely to perform well in the upcoming period.

MAA has a well-balanced portfolio and its focus on making strategic investments augur well. Also, growing demand for residential units and solid balance sheet strength keep its growth momentum going.

Reasons To Sell:

- ▼ During third-quarter 2019, supply of new units remained elevated in a number of the company's urban submarkets. The company also anticipates high levels of new delivery to sustain in 2020. This high supply adversely impacts the landlord's capability to demand more rents and results in lesser absorption. This is likely to put pressure on rental rates and negatively affect revenue growth in the near term.
- ▼ The company has a significant active development pipeline with six development communities under construction as of third-quarter 2019 end. Total development costs for these communities are estimated to be \$389.5 million, of which \$282.8 million remained unfunded. In addition, the company expects to initiate two more projects before 2019. 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 Dec 31, 2018, around 39.4% of the total portfolio of the company is located in the top five markets of Atlanta, Dallas, Austin, Charlotte and Orlando. Therefore, performance of the company is susceptible to any adverse development in the general economic conditions of these regions.
- ▼ 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.
- ▼ Although interest rate levels are currently low, any hike in future can pose a challenge for MAA. Essentially, rising rates imply higher interest expense on the company's variable rate debt. Further, it escalates borrowing cost for new and refinancing debt for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive compared to the yields on fixed income and money market accounts.

Elevated supply of new apartment units and a competitive landscape is impacting rent growth and pricing power for MAA. Additionally, geographic concentration of assets is another concern.

Last Earnings Report

Mid-America Apartment's Q3 FFO Misses Estimates, NOI Up

MAA reported third-quarter 2019 adjusted FFO of \$1.53 per share, missing the Zacks Consensus Estimate of \$1.55. Nonetheless, the reported tally comes in higher than the prior-year quarter's \$1.32.

Quarterly results reflect growth in same-store NOI and rise in average effective rent per unit for the same-store portfolio.

Rental and other property revenues were \$415.6 million in the quarter, outpacing the Zacks Consensus Estimate of \$411.2 million. Further, the reported figure came in higher than the year-ago quarter's \$397.1 million.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	1.07%
EPS Surprise	-1.29%
Quarterly EPS	1.53
Annual EPS (TTM)	6.23

Quarter in Detail

The same-store portfolio revenues grew 4%, backed by rise in average effective rent per unit of 3.9% year over year. During the third quarter, the company's same-store NOI increased 4.5% year over year. Moreover, average physical occupancy for the same-store portfolio was 96.1%, expanding 10 basis points (bps) sequentially.

During third-quarter 2019, rent growth in the company's same-store portfolio for both new and renewing leases, compared with the prior lease, was 4.9% on a combined basis. This indicates a 190-basis point improvement year over year.

As of Sep 30, 2019, unencumbered NOI was 90.6% of total NOI, lower than 92.6% reported as of Dec 31, 2018.

As of Sep 30, 2019, MAA held cash and cash equivalents of nearly \$25.8 million, down from \$34.3 million as of Dec 31, 2018.

Additionally, as of the same date, total debt outstanding was \$4.5 billion.

Furthermore, as of the same date, around \$823 million of combined cash and capacity were available under its unsecured revolving credit facility, net of commercial paper borrowings.

Portfolio Activity

During the September-end quarter, the company acquired 14,941 square feet of multi-tenant retail space at its 220 Riverside apartment community in Jacksonville, FL.

Further, MAA completed the renovation of 2,732 units under its redevelopment program.

At the end of the third quarter, MAA had six development community projects under construction, with total projected costs of \$389.5 million. Notably, an estimated \$282.8 million remained to be funded as of Sep 30, 2019.

Outlook

For fourth-quarter 2019, MAA expects FFO per share to be \$1.59-\$1.67.

MAA has raised its guidance for 2019 FFO per share to \$6.46-\$6.54 from the previous estimate of \$6.20-\$6.36. Further, outlook for adjusted FFO per share has been revised to \$5.82 to \$5.90 from the prior band of \$5.56 to \$5.72.

Further, for 2019, the company expects to attain an increase in the average rental rate of 9-10%, above non-renovated units by redeveloping a total of 7,500-8,500 units.

Recent News

Mid-America Apartment Hikes Dividend for 10th Consecutive Year – Dec 10, 2019

MAA announced that its board of directors has approved an increase in the company's quarterly dividend payment. The company will now pay \$1 per share, which reflects a hike of 4.2% from the prior dividend of 96 cents. 96 cents.

This is the 10th consecutive annual increase in the company's dividend. This new dividend will be paid on Jan 31, to shareholders of record on Jan 15, 2020.

Mid-America Apartment to Raise Capital Through Notes Offering - Nov 18, 2019

MAA announced the pricing of senior unsecured notes through its operating partnership, Mid-America Apartments, L.P.

The \$300-million offering of 2.750% senior unsecured notes was priced at 99.762% of the principal amount. The notes are set to mature in 2030.

The company expects to use net proceeds from this offering to pay down part of outstanding debt under its unsecured commercial paper program. Further, funds will be used for general corporate purposes, including the repayment of other debt, and to fund acquisition, development and redevelopment of apartment communities.

Valuation

Mid-America Apartment Communities shares are up 32.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 17.4% and 12.9% over the past year.

The S&P 500 Index is up 24.7% over the past year.

The stock is currently trading at 20.07X forward 12-month FFO, which compares to 20.67X for the Zacks sub-industry, 14.95X for the Zacks sector and 19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.56X and as low as 13.25X, with a 5-year median of 16.19X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$140 price target reflects 21.32X FFO per share.

The table below shows summary valuation data for MAA.

Valuation Multiples - MAA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.07	20.67	14.95	19
	5-Year High	21.56	21.89	16.21	19.34
	5-Year Low	13.25	16.2	12.01	15.17
	5-Year Median	16.19	18.54	13.98	17.44
P/S F12M	Current	8.81	10.28	6.53	3.52
	5-Year High	10.39	10.76	6.61	3.52
	5-Year Low	5.18	7.42	5.2	2.54
	5-Year Median	7.06	8.86	6.04	3
P/B TTM	Current	2.41	2.86	2.84	4.49
	5-Year High	2.8	3.09	2.89	4.49
	5-Year Low	1.48	2.06	1.83	2.85
	5-Year Median	1.88	2.38	2.5	3.61

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Top 46% (116 out of 254)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	MAA Neutral	X Industry	S&P 500	AVB Neutral	EQR Neutral	ESS Neutral
VGM Score	D	-	-	F	F	F
Market Cap	15.03 B	1.62 B	24.31 B	29.26 B	30.14 B	19.94 B
# of Analysts	8	4.5	13	9	11	10
Dividend Yield	3.04%	3.56%	1.76%	2.90%	2.80%	2.58%
Value Score	D	-	-	F	F	F
Cash/Price	0.00	0.03	0.04	0.01	0.00	0.00
EV/EBITDA	21.84	21.51	14.08	22.28	23.03	23.68
PEG Ratio	5.17	3.45	2.06	3.45	3.62	3.43
Price/Book (P/B)	2.41	2.44	3.33	2.71	2.91	3.11
Price/Cash Flow (P/CF)	21.16	17.58	13.62	17.70	19.93	23.46
P/E (F1)	20.15	18.84	18.86	21.30	22.41	21.47
Price/Sales (P/S)	9.27	6.91	2.65	13.28	11.29	13.87
Earnings Yield	4.97%	5.33%	5.27%	4.70%	4.46%	4.66%
Debt/Equity	0.72	0.92	0.72	0.69	0.87	0.94
Cash Flow (\$/share)	6.23	2.27	6.94	11.83	4.07	12.86
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	4.03%	3.96%	10.56%	4.40%	0.01%	9.23%
Proj. EPS Growth (F1/F0)	0.75%	5.82%	7.52%	5.64%	4.27%	5.33%
Curr. Cash Flow Growth	-12.82%	8.69%	14.88%	10.46%	8.80%	-3.53%
Hist. Cash Flow Growth (3-5 yrs)	26.71%	21.31%	9.00%	21.78%	17.96%	21.31%
Current Ratio	0.08	1.04	1.23	0.89	0.13	1.59
Debt/Capital	41.78%	47.56%	42.99%	40.95%	47.69%	48.69%
Net Margin	16.25%	12.78%	11.14%	45.56%	29.88%	29.78%
Return on Equity	3.84%	4.39%	17.16%	9.35%	7.73%	6.73%
Sales/Assets	0.14	0.13	0.55	0.12	0.13	0.11
Proj. Sales Growth (F1/F0)	3.84%	6.40%	4.18%	5.30%	3.34%	5.62%
Momentum Score	D	-	-	D	D	D
Daily Price Chg	-1.30%	-0.01%	0.08%	-0.72%	-1.36%	-1.20%
1 Week Price Chg	0.98%	0.17%	0.39%	-0.37%	0.57%	0.40%
4 Week Price Chg	2.90%	2.31%	1.93%	1.39%	1.31%	1.90%
12 Week Price Chg	-3.37%	-1.57%	6.50%	-5.55%	-8.23%	-8.81%
52 Week Price Chg	34.52%	20.48%	22.56%	16.53%	18.55%	19.49%
20 Day Average Volume	457,636	400,799	1,571,506	575,252	1,475,072	363,254
(F1) EPS Est 1 week change	-0.02%	0.00%	0.00%	0.00%	0.00%	0.02%
(F1) EPS Est 4 week change	-0.02%	0.00%	0.00%	0.00%	0.00%	-0.28%
(F1) EPS Est 12 week change	1.04%	0.17%	-0.52%	0.29%	0.63%	-0.79%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-0.48%

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.

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	D
VGM Score	D

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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