

Mid-America Apartment (MAA)

\$100.10 (As of 03/18/20)

Price Target (6-12 Months): **\$106.00**

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: F

Growth: B

Momentum: C

Summary

Mid-America Apartment Communities, also known as MAA, is poised to benefit from healthy demand for rental units in its Sun-Belt markets as favorable demographics and encouraging household formation trends amid job growth in the Sun-Belt region are anticipated to spur demand, drive rental growth and support leasing activity. MAA is also focused on redevelopment initiatives to boost earnings from its existing asset base and with an investment-grade balance sheet, it is well poised to capture growth opportunities. The fourth-quarter results reflected decent growth in its same-store portfolio. The company's shares have outperformed the industry over the past year. However, elevated supply in a number of markets will likely curb its pricing power and occupancy. An extensive development pipeline exposes it to construction cost overruns.

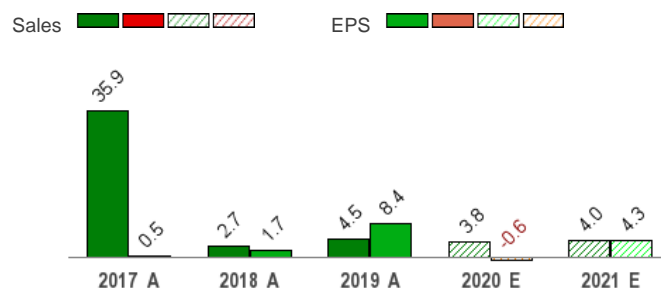
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.88 - \$96.69
20 Day Average Volume (sh)	1,068,817
Market Cap	\$11.4 B
YTD Price Change	-24.1%
Beta	0.45
Dividend / Div Yld	\$4.00 / 4.0%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 42% (107 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.1%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	15.7
P/E F1	15.4
PEG F1	3.9
P/S TTM	7.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	435 E	440 E	447 E	450 E	1,773 E
2020	418 E	423 E	430 E	431 E	1,704 E
2019	401 A	407 A	416 A	417 A	1,641 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$1.67 E	\$1.68 E	\$1.75 E	\$6.79 E
2020	\$1.60 E	\$1.61 E	\$1.62 E	\$1.68 E	\$6.51 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 03/18/2020. The reports text is as of 03/19/2020.

Overview

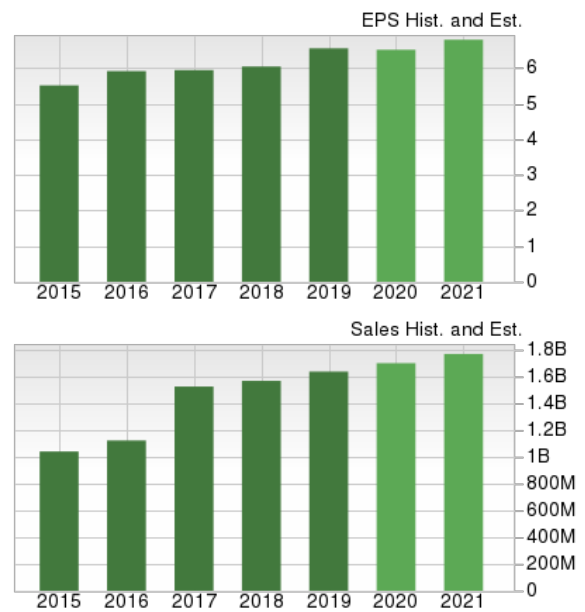
Headquartered in Germantown, TN, Mid-America Apartment Communities, Inc. — commonly known as MAA — is a residential real estate investment trust (REIT) engaged in owning, acquiring, operating and selective development of apartment communities, located primarily in the Southeast, Southwest and Mid-Atlantic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

As of Dec 31, 2019, the company had full or partial ownership stake in 100,031 apartment units, including projects under development. These 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.



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. Further, in 2020, the company expects to invest \$175-\$225 million in multi-family property acquisitions and primarily match-fund these buyouts with equity issuance under its ATM program. Moreover, as part of the company's capital-recycling efforts, management expects 2020 disposition of \$125-\$150 million. In fact, in October 2019, the company exited the Little Rock, AK market with the sale of its five multi-family properties. Gross proceeds from the sale were \$149.6 million.
- ▲ Additionally, MAA is focusing on redevelopment initiatives and smart-home installations to generate accretive returns and boost earnings from its existing asset base. In fact, it completed interior upgrades at 8,329 units in 2019. This has enabled the company to achieve average rental rate growth of 9.8% above non-renovated units. It expects 24,000 smart home unit installs in 2020.
- ▲ Amid encouraging job growth in the Sun Belt markets, demand for MAA's portfolio of multi-family assets continues to remain strong. 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 prioritizes rent growth over high occupancy level.
- ▲ MAA enjoys a solid balance sheet with lower leverage, improved investment grade metrics and limited near-term maturities. As of Dec 31, 2019, MAA held cash and cash equivalents of nearly \$20.4 million. Furthermore, as of the same date, \$947.7 million of combined cash and capacity were available under its unsecured revolving credit facility, net of commercial paper borrowings. As of Dec 31, 2019, unencumbered NOI was 90.2% of total NOI.
- ▲ With 104 consecutive quarterly common dividend payments, 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.

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:

- ▼ Management anticipates new supply deliveries in 2020 to exceed 2019 levels. 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 seven development communities under construction as of fourth-quarter 2019 end. Total development costs for these communities are estimated to be \$489.5 million, of which \$345.6 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 Dec 31, 2019, around 39.9% 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.
- ▼ Over the past year, shares of MAA have declined 5.9%, while the industry has lost 21.2%. The trend in estimate revisions for the current-year FFO per share does not indicate an upbeat outlook for the company. The 2020 Zacks Consensus Estimate for FFO per share moved south over the past month. Hence, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential for the upcoming period.

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 Q4 FFO & Revenues Top Estimates

MAA reported fourth-quarter 2019 FFO of \$1.68 per share, surpassing the Zacks Consensus Estimate of \$1.63. Further, the reported tally came in higher than the prior-year quarter's \$1.55.

This residential REIT's 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 came in at \$416.8 million in the quarter, marginally outpacing the Zacks Consensus Estimate of \$416 million. The reported figure also came in higher than the year-ago quarter's \$398.1 million.

For full-year 2019, the FFO per share came in at \$6.55, ahead of the Zacks Consensus Estimate of \$6.50 and the prior-year tally of \$6.04. This was supported by 4.4% year-over-year growth in rental and other property revenues to \$1.6 billion.

Quarter in Detail

The same-store portfolio revenues grew 4.1%, backed by rise in average effective rent per unit of 4.3%, year over year. During the fourth quarter, the company's same-store NOI increased 5% year over year. Moreover, average physical occupancy for the same-store portfolio was 95.7%, contracting 40 basis points (bps) year over year.

During fourth-quarter 2019, rent growth in the company's same-store portfolio for both new and renewing leases, compared with the prior lease, increased 2.6% on a combined basis. This indicates a 100-basis-point improvement year over year.

As of Dec 31, 2019, unencumbered NOI was 90.2% of total NOI, lower than the 92.6% reported as of Dec 31, 2018.

As of Dec 31, 2019, MAA held cash and cash equivalents of nearly \$20.4 million, down from approximately \$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, \$947.7 million of combined cash and capacity were available under its unsecured revolving credit facility, net of commercial paper borrowings.

Portfolio Activity

During the December-end quarter, the company acquired The Greene, a new 271-unit multi-family apartment community in Greenville, SC.

In October, it exited the Little Rock, AK market with the sale of its five multi-family properties. Gross proceeds from the sale were \$149.6 million.

During the quarter ended Dec 31, 2019, MAA completed the renovation of 1,733 units under its redevelopment program. With this, the company renovated 8,329 units during the year ended Dec 31, 2019.

At the end of the fourth quarter, MAA had seven development community projects under construction, with total projected costs of \$489.5 million. Notably, an estimated \$345.6 million remained to be funded as of Dec 31, 2019.

Outlook

For first-quarter 2020, MAA expects FFO per share of \$1.53-\$1.65.

MAA has guided 2020 Core FFO per share of \$6.38-\$6.62. The company's full-year outlook is based on same-store portfolio revenue growth of 3.25-4.25%, same-store portfolio operating expense rise of 3.75-4.75% and same-store NOI increase of 3-4%.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.20%
EPS Surprise	3.07%
Quarterly EPS	1.68
Annual EPS (TTM)	6.36

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.

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

Valuation

Mid-America Apartment Communities shares have declined 5.9% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.2% and 30% in the past year, respectively.

The S&P 500 index is up 15.8% in the past year.

The stock is currently trading at 15.23X forward 12-month FFO, which compares to 16.65X for the Zacks sub-industry, 10.72X for the Zacks sector and 14.78X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.45X and as low as 13.25X, with a 5-year median of 16.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$106 price target reflects 16.13X FFO.

The table below shows summary valuation data for MAA.

Valuation Multiples - MAA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.23	16.65	10.72	14.78
	5-Year High	22.45	22.36	16.21	19.34
	5-Year Low	13.25	16.32	10.72	14.78
	5-Year Median	16.33	18.64	13.97	17.42
P/S F12M	Current	6.66	9.08	5.99	2.71
	5-Year High	10.39	12.16	6.64	3.43
	5-Year Low	5.18	7.42	5.39	2.54
	5-Year Median	7.12	9.24	6.04	3
P/B TTM	Current	1.82	2.41	2	3.4
	5-Year High	2.8	3.28	2.89	4.55
	5-Year Low	1.48	2.09	1.83	2.85
	5-Year Median	1.9	2.41	2.52	3.63

As of 03/18/2020

Industry Analysis Zacks Industry Rank: Top 42% (107 out of 253)



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	D	D
Market Cap	11.44 B	993.43 M	16.02 B	21.64 B	22.64 B	13.65 B
# of Analysts	8	4	13	11	12	11
Dividend Yield	4.00%	5.68%	2.66%	3.95%	3.73%	3.78%
Value Score	F	-	-	F	F	F
Cash/Price	0.00	0.02	0.06	0.00	0.00	0.00
EV/EBITDA	15.04	13.88	10.21	19.36	14.21	16.96
PEG Ratio	3.94	2.79	1.46	3.02	3.00	3.02
Price/Book (P/B)	1.82	1.34	2.18	1.96	2.15	2.13
Price/Cash Flow (P/CF)	13.32	8.87	8.79	14.50	12.17	15.14
P/E (F1)	15.38	13.19	12.92	15.76	16.82	14.73
Price/Sales (P/S)	6.97	4.71	1.74	9.75	8.38	9.35
Earnings Yield	6.50%	7.54%	7.70%	6.35%	5.95%	6.79%
Debt/Equity	0.71	0.96	0.70	0.68	0.86	0.91
Cash Flow (\$/share)	7.52	2.78	7.01	10.61	5.00	13.62
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	3.64%	3.82%	10.85%	4.05%	0.29%	8.62%
Proj. EPS Growth (F1/F0)	-0.61%	5.26%	5.12%	4.57%	3.68%	4.65%
Curr. Cash Flow Growth	20.94%	15.08%	6.03%	-9.39%	23.84%	5.93%
Hist. Cash Flow Growth (3-5 yrs)	15.27%	17.18%	8.55%	6.67%	5.74%	12.62%
Current Ratio	0.15	0.92	1.23	0.40	0.28	1.36
Debt/Capital	41.46%	47.56%	42.57%	40.37%	47.40%	47.73%
Net Margin	21.50%	13.61%	11.57%	35.42%	35.93%	30.08%
Return on Equity	5.28%	5.74%	16.74%	7.26%	9.36%	6.90%
Sales/Assets	0.15	0.12	0.54	0.12	0.13	0.11
Proj. Sales Growth (F1/F0)	3.84%	5.53%	3.22%	10.28%	2.82%	7.24%
Momentum Score	C	-	-	D	C	C
Daily Price Chg	-11.55%	-12.67%	-6.77%	-15.26%	-8.41%	-12.63%
1 Week Price Chg	-12.07%	-13.73%	-11.01%	-7.61%	-5.19%	-6.42%
4 Week Price Chg	-30.98%	-38.92%	-34.65%	-31.85%	-28.67%	-35.87%
12 Week Price Chg	-22.62%	-33.90%	-32.08%	-26.00%	-24.27%	-30.89%
52 Week Price Chg	-5.91%	-27.70%	-23.52%	-21.75%	-17.32%	-27.70%
20 Day Average Volume	1,068,817	889,980	3,834,688	1,194,077	2,792,779	651,858
(F1) EPS Est 1 week change	0.00%	-0.03%	-0.06%	-0.18%	-0.03%	-0.11%
(F1) EPS Est 4 week change	-0.42%	-0.56%	-0.74%	-0.44%	-0.25%	-0.14%
(F1) EPS Est 12 week change	-0.69%	-0.96%	-1.38%	-0.70%	0.05%	-0.35%
(Q1) EPS Est Mthly Chg	0.10%	-0.05%	-0.85%	-0.05%	0.00%	0.74%

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	F
Growth Score	B
Momentum Score	C
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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