Jun 25, 2020

Mid-America Apartment (MAA)

$110.52 (As of 06/24/20)

Price Target (6-12 Months): **$117.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/02/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C | Momentum: C	

Summary

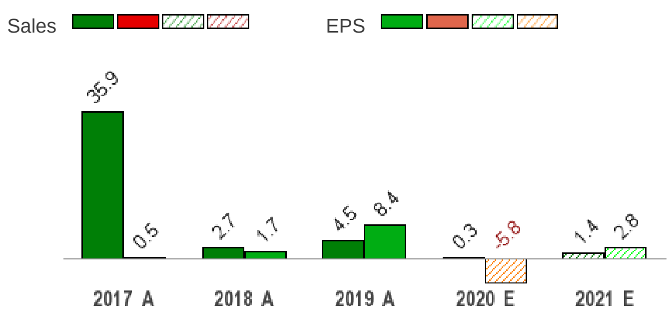
Mid-America Apartment Communities, also known as MAA, is anticipated to benefit from a well-balanced portfolio across the Sunbelt region. Moreover, a high-quality resident profile has resulted in solid collection performance, even amid the pandemic. The company has a strong balance sheet that positions it well to navigate through the pandemic-related challenges. Moreover, it is banking on interior redevelopment initiatives, and repositioning efforts to drive additional value and rent growth. Shares of the company have declined narrower than its industry over the past year. However, 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)	**841,718**
Market Cap	**$12.6 B**
YTD Price Change	**-16.2%**
Beta	**0.69**
Dividend / Div Yld	**$4.00 / 3.6%**
Industry	**REIT and Equity Trust - Residential**
Zacks Industry Rank	**Bottom 30% (178 out of 253)**
Last EPS Surprise	**1.3%**
Last Sales Surprise	**0.1%**
EPS F1 Est- 4 week change	**-1.0%**
Expected Report Date	**07/29/2020**
Earnings ESP	**1.4%**
P/E TTM	**17.3**
P/E F1	**17.9**
PEG F1	**4.6**
P/S TTM	**7.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	416 E	419 E	425 E	428 E	1,669 E
2020	418 A	412 E	408 E	407 E	1,646 E
2019	401 A	407 A	416 A	417 A	1,641 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.51 E	$1.55 E	$1.56 E	$1.65 E	$6.34 E
2020	$1.62 A	$1.52 E	$1.47 E	$1.52 E	$6.17 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 06/24/2020. The reports text is as of 06/25/2020.

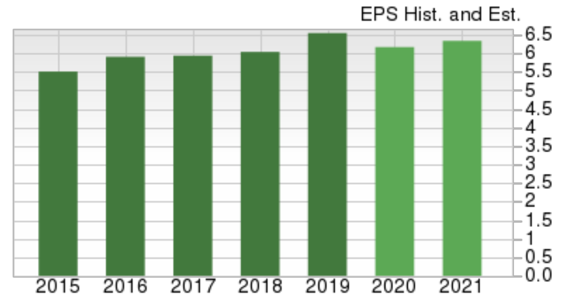
Overview

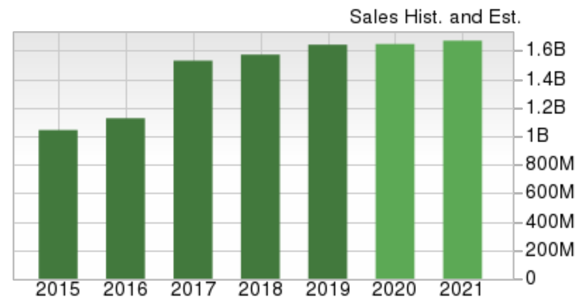
Headquartered in Germantown, TN, Mid-America Apartment Communities, Inc. — commonly known as MAA — is a residential real estate investment trust (REIT) engaged in owning, acquiring, operating and selective development of apartment communities, located primarily in the Southeast, Southwest and Mid-Atlantic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

As of Mar 31, 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.*

Reasons To Buy:

MAA has a well-balanced portfolio and focus on making strategic redevelopments augurs well. Also, high demand for residential units and a solid balance sheet will help it sail though uncertain times.

- 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, a high-quality resident profile has resulted in solid collection performance, even amid the pandemic. In fact, the company informed that as of May 28, it collected 99.1% and 96.1% of its billed rent in rent cash collections for April and May, respectively.

- 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. The company has currently put acquisitions, dispositions and new development activities on hold due to the pandemic. Nonetheless, existing developments are on course.

- MAA is also focusing on smart-home installations and interior redevelopment initiatives to generate accretive returns and boost earnings from its existing asset base. Notably, both programs were paused in March due to the COVID-19 outbreak. Nonetheless, the company expects roll-outs to restart in July and expects to install in 20,000-24,000 units by 2020 end, which will contribute to revenue growth in 2021. Additionally, it anticipates completing interior upgrades at 4,000-5,000 units in 2020. This is likely to drive average rental rate growth of 9-10% above non-renovated units. Further, in first-quarter 2020, MAA initiated additional extensive upgrades and repositioning of 10 properties with expected investment of $20 million in 2020. Upgrades will include renovations of amenity and common areas. Such repositioning efforts are likely to 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. In fact, in April, average effective rent per unit grew 3.8% year over year to $1,289 at the company's same-store portfolio.

- MAA enjoys a solid balance sheet, with low leverage and ample availability under its revolving credit facility. As of Mar 31, 2020, the company held cash and cash equivalents of $34.5 million as well as $931.8 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 90.6% unencumbered net operating income (NOI), providing scope for tapping additional secured debt capital if required. Moreover, for 2020, the company's debt maturities amount to $137 million. Hence, with limited near-term maturities and funding obligations, the company is well-positioned to navigate through the pandemic-related challenges.

- 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.

Reasons To Sell:

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.

- 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 in the prime summer leasing season and persist in the slower winter leasing season. Moreover, amid this situation, the rent-paying capability of tenants is likely to get maimed. 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, leasing volume dropped 50% year over year in March. Average physical occupancy for the same-store portfolio in May was 95.4%, contracting 60 basis points (bps) year over year. Moreover, the COVID-19 outbreak-related commercial rent abatements for April and May were $549,000 and $393,000. Management expects lower-than-normal rent collections for second-quarter 2020.

- 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 seven development communities under construction as of first-quarter 2020 end. Total development costs for the communities are estimated to be around $490 million, of which $304.9 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 Mar 31, 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.

- Over the past year, shares of MAA have lost 4.2% compared with the industry's decline of 12.2%. However, 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 marginally downward over the past week. Hence, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential for the upcoming period.

Last Earnings Report

Mid-America Apartment Q1 FFO & Revenues Top Estimates

Quarter Ending	03/2020
Report Date	May 06, 2020
Sales Surprise	0.06%
EPS Surprise	1.25%
Quarterly EPS	1.62
Annual EPS (TTM)	6.40

MAA reported first-quarter 2020 core FFO of $1.62 per share, surpassing the Zacks Consensus Estimate of $1.60. Further, the reported figure was 8% higher than the prior-year quarter's number.

The 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 was $418.1 million in the quarter, marginally outpacing the Zacks Consensus Estimate of $417.8 million. The reported figure also came in 4.2% higher than the year-ago quarter's $401.2 million.

Quarter in Detail

The same-store portfolio revenues grew 4.2%, backed by rise in average effective rent per unit of 4.2%, year over year. During the first quarter, the company's same-store NOI increased 4.8% year over year. Average physical occupancy for the same-store portfolio was 95.7%, contracting 20 bps year over year.

During the first quarter, rent growth in the company's same-store portfolio for both new and renewing leases, compared with the prior lease, came in at 2.6% on a combined basis.

As of Mar 31, 2020, unencumbered NOI was 90.6% of total NOI, higher than the 90.2% reported as of Dec 31, 2019.

As of Mar 31, 2020, MAA held cash and cash equivalents of $34.5 million, up 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, $931.8 million of combined cash and capacity were available under its unsecured revolving credit facility, net of commercial paper borrowings.

Portfolio Activity

During the March-end quarter, the company acquired a 22-acre land parcel located in the Austin, TX market for development.

During the quarter ended Mar 31, 2020, MAA completed the renovation of 1,440 units under its redevelopment program.

At the end of the reported quarter, MAA had seven development community projects under construction, with total projected costs of $489.5 million. Notably, an estimated $304.9 million remained to be funded as of Mar 31, 2020.

Outlook

MAA withdrew its 2020 guidance in March in light of the coronavirus pandemic-related uncertainties.

The company had earlier projected 2020 core FFO per share of $6.38-$6.62.

Its full-year outlook was 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%.

Recent News

Dividend Update

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

Valuation

Mid-America Apartment Communities shares have lost 4.2% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 12.2% and 12.9% in the past year, respectively.

The S&P 500 Index is up 7.6% in the past year.

The stock is currently trading at 17.68X forward 12-month FFO, which compares to 18.06X for the Zacks sub-industry, 16.40X for the Zacks sector and 22.46X 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 16.46X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $117 price target reflects 18.72X FFO.

The table below shows summary valuation data for MAA.

Valuation Multiples - MAA

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.68	18.06	16.40	22.46
	5-Year High	22.45	22.36	16.40	22.46
	5-Year Low	12.88	15.54	11.57	15.23
	5-Year Median	16.46	18.47	13.98	17.49
P/S F12M	Current	7.62	9.49	6.00	3.51
	5-Year High	10.39	12.16	6.66	3.51
	5-Year Low	5.18	7.42	4.95	2.53
	5-Year Median	7.19	9.27	6.06	3.02
P/B TTM	Current	2.03	2.49	2.34	4.28
	5-Year High	2.80	3.30	2.91	4.56
	5-Year Low	1.48	1.82	1.71	2.83
	5-Year Median	1.94	2.42	2.53	3.68

As of 06/24/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (178 out of 253)

Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Residential

Industry Peers

	MAA	X Industry	S&P 500	AVB	EQR	ESS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	D	C	F
Market Cap	12.64 B	1.23 B	21.05 B	21.33 B	21.39 B	14.90 B
# of Analysts	7	5.5	14	7	11	11
Dividend Yield	3.62%	4.36%	1.99%	4.20%	4.19%	3.65%
Value Score	D	-	-	D	D	D
Cash/Price	0.00	0.04	0.07	0.04	0.00	0.02
EV/EBITDA	16.23	16.49	12.43	19.22	13.45	18.48
PEG Ratio	4.54	3.82	2.85	4.90	3.81	4.76
Price/Book (P/B)	2.03	1.73	2.87	1.95	1.99	2.35
Price/Cash Flow (P/CF)	14.70	13.10	11.32	14.28	11.49	16.72
P/E (F1)	17.72	16.29	20.46	16.72	17.17	17.09
Price/Sales (P/S)	7.62	5.93	2.19	9.04	7.86	9.96
Earnings Yield	5.58%	6.15%	4.57%	5.98%	5.83%	5.85%
Debt/Equity	0.72	1.01	0.77	0.76	0.80	1.01
Cash Flow ($/share)	7.52	2.46	7.01	10.61	5.00	13.62
Growth Score	C	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	3.28%	3.28%	10.84%	3.83%	0.75%	8.04%
Proj. EPS Growth (F1/F0)	-5.78%	-3.38%	-10.79%	-2.95%	-4.09%	-0.42%
Curr. Cash Flow Growth	20.94%	7.20%	5.46%	-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	0.11	1.55	1.29	2.72	0.36	1.64
Debt/Capital	41.91%	50.43%	45.14%	43.14%	45.48%	50.43%
Net Margin	19.66%	14.33%	10.53%	33.20%	43.16%	42.47%
Return on Equity	5.33%	4.98%	16.06%	7.21%	11.20%	9.94%
Sales/Assets	0.15	0.13	0.55	0.12	0.13	0.12
Proj. Sales Growth (F1/F0)	0.29%	1.61%	-2.70%	5.29%	-2.70%	5.06%
Momentum Score	C	-	-	C	A	F
Daily Price Chg	-2.66%	-2.41%	-3.07%	-2.41%	-2.20%	-1.93%
1 Week Price Chg	-3.70%	-2.48%	0.92%	-5.29%	-6.28%	-6.37%
4 Week Price Chg	-5.44%	-1.15%	-3.03%	-4.61%	-4.41%	-8.17%
12 Week Price Chg	11.93%	16.31%	22.03%	9.82%	-0.38%	13.70%
52 Week Price Chg	-4.21%	-17.58%	-8.53%	-24.70%	-24.02%	-21.00%
20 Day Average Volume	841,718	841,718	2,805,937	1,523,634	3,676,302	559,210
(F1) EPS Est 1 week change	-0.32%	0.00%	0.00%	0.00%	0.00%	-0.03%
(F1) EPS Est 4 week change	-1.03%	0.00%	0.00%	-1.28%	-1.42%	-0.15%
(F1) EPS Est 12 week change	-3.91%	-6.73%	-12.33%	-6.85%	-6.48%	-3.85%
(Q1) EPS Est Mthly Chg	-0.37%	-0.37%	0.00%	-1.10%	-0.84%	0.83%

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	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.

Disclosures

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