

## Prologis Inc. (PLD)

**\$84.28** (As of 02/28/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: D

## Summary

Shares of Prologis have outperformed its industry in the past year. This industrial REIT has been actively banking on growth opportunities. This February, the company completed the \$13-billion acquisition of Liberty Property Trust in an all-stock deal, strengthening the company's presence in target regions such as Chicago, Lehigh Valley, New Jersey, Houston, Central PA, and Southern California. Its board has also approved a 9.4% hike in its annualized dividend rate. Notably, in a rising e-commerce market, industrial real estate assets continue to play a pivotal role. Companies are making immense efforts to improve supply-chain efficiencies, spurring demand for logistics infrastructure and Prologis is well capitalizing on this favorable trend. However, higher supply in the upcoming period might impede rent and occupancy growth.

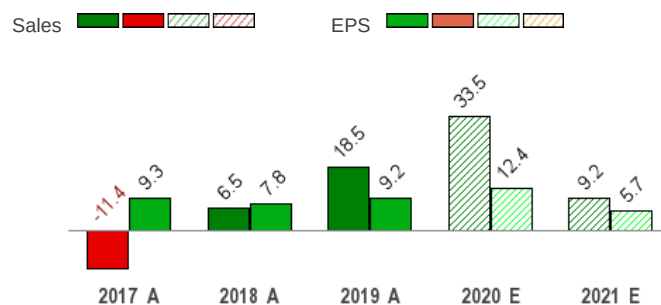
## Price, Consensus & Surprise



## Data Overview

|                            |                                               |
|----------------------------|-----------------------------------------------|
| 52 Week High-Low           | \$99.79 - \$68.96                             |
| 20 Day Average Volume (sh) | 5,190,924                                     |
| Market Cap                 | \$62.3 B                                      |
| YTD Price Change           | -5.5%                                         |
| Beta                       | 1.02                                          |
| Dividend / Div Yld         | \$2.32 / 2.5%                                 |
| Industry                   | <a href="#">REIT and Equity Trust - Other</a> |
| Zacks Industry Rank        | Bottom 39% (154 out of 254)                   |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 0.0%       |
| Last Sales Surprise       | -0.4%      |
| EPS F1 Est- 4 week change | 0.3%       |
| Expected Report Date      | 04/21/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 25.5       |
| P/E F1                    | 22.7       |
| PEG F1                    | 4.1        |
| P/S TTM                   | 18.7       |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 |       |       |       |       | 4,131 E |
| 2020 | 850 E | 964 E | 977 E | 991 E | 3,782 E |
| 2019 | 697 A | 701 A | 710 A | 724 A | 2,832 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.95 E | \$0.97 E | \$0.99 E | \$1.00 E | \$3.93 E |
| 2020 | \$0.83 E | \$1.02 E | \$0.91 E | \$0.96 E | \$3.72 E |
| 2019 | \$0.73 A | \$0.77 A | \$0.97 A | \$0.84 A | \$3.31 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 02/28/2020. The reports text is as of 03/02/2020.

## Overview

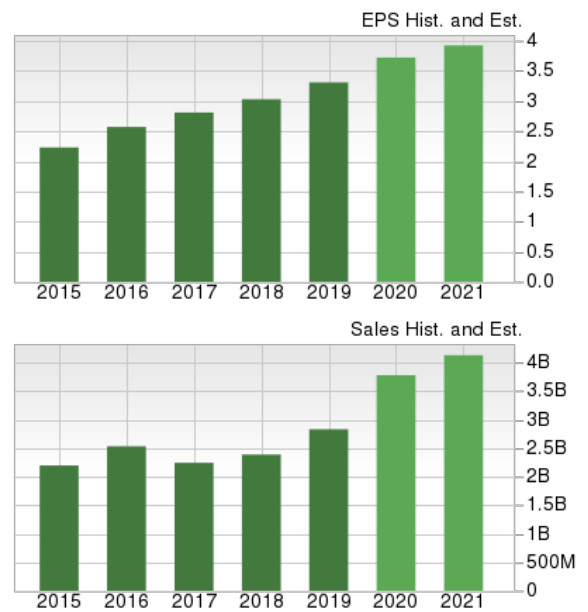
Prologis Inc. is a leading industrial real estate investment trust (REIT) that acquires, develops, operates and manages industrial real estate space in the Americas, Asia and Europe. The company principally targets investments in distribution facilities for customers who are engaged in global trade and depend on efficient movement of goods through the global supply chain.

As of Dec 31, 2019, Prologis owned or had investments in properties and development projects aggregating around 814 million square feet of space in 19 countries, either on a wholly-owned basis or through co-investment ventures. Modern distribution facilities are being leased by the company to around 5,000 customers. These customers belong to two main categories — business-to-business and retail/online fulfillment.

The company has been actively banking on its growth opportunities through acquisitions and developments. In February, Prologis accomplished the \$13-billion acquisition of Liberty Property Trust in an all-stock deal, including the assumption of debt. The acquisition leads to addition of a logistics operating portfolio spanning 108 million square feet of space. Furthermore, through this buyout, Prologis added 4.9 million square feet of logistics development in progress. Also, it brings in 1,748 acres of land for future logistics development with build-out potential of 20.5 million square feet and 3.8-million-square-foot office operating and development portfolio.

Further, in January, Prologis closed the transaction to acquire warehouse owner IPT in an all-cash deal valued at \$4 billion, including debt, from Black Creek Group. The acquired portfolio consists of 37.5 million square feet of highly-leased industrial properties and 236 properties across 24 geographic areas, 96% of which overlaps Prologis' existing footprint.

*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:

- ▲ Prologis provides industrial distribution warehouse space in some of the busiest distribution markets across the globe. The properties of the company are typically located in large, supply-constrained infill markets in close proximity to airports, seaports and ground transportation facilities, which facilitates rapid distribution of customers' products.
- ▲ In a rising e-commerce market, the industrial real estate asset category has grabbed headlines and continues to play a pivotal role, transforming the way how consumers shop and receive their goods. Services like same-day delivery are gaining traction and last-mile properties in high-income urban areas are witnessing solid pricing, occupancy and growth in rentals. Companies are making immense efforts to improve supply-chain efficiencies, propelling demand for logistics infrastructure and efficient distribution networks. Given Prologis' solid capacity, the company remains well poised to capitalize on this trend. The company's share of net effective rent change was 29.5% during the December-end quarter compared with the 25.6% recorded a year ago. This was driven by the United States at 34.1%. Also, management expects cash same-store net operating income (NOI) in the range of 4.25% to 5.25% for 2020.
- ▲ With healthy operating fundamentals in the industrial real estate markets, Prologis is actively capitalizing on growth opportunities through acquisitions and developments. In February, the company accomplished the \$13-billion acquisition of Liberty Property Trust. The acquisition strengthens Prologis' presence in target regions such as Chicago, Lehigh Valley, New Jersey, Houston, Central PA, and Southern California. Moreover, in January, the company completed its acquisition of warehouse owner IPT in an all-cash deal valued at about \$4 billion, including debt, from Black Creek Group. The portfolio consists of 37.5 million square feet and 24 U.S. markets. Particularly, the acquisition expands the company's position in Southern California, the San Francisco Bay Area, Chicago, Atlanta, Dallas, Seattle and New Jersey. Also, in 2018, Prologis gained significant scale by acquiring DCT Industrial Trust Inc. for \$8.5 billion in a stock-for-stock deal.
- ▲ Prologis' high number of build-to-suit development projects highlights the advantageous location of the company's land bank, as well as demand from its multi-site customers, many of whom are focused on e-commerce. The sites are positioned near large population centers that are suited for serving as the last warehouse before goods are delivered to consumers.
- ▲ Prologis is focused on bolstering its liquidity. The company exited 2019 with cash and cash equivalents of \$1.08 billion, up from the \$1.02 million recorded at the end of the previous quarter. Prologis ended the October-December quarter with leverage of 18.3% on a market capitalization basis and debt-to-adjusted EBITDA of 4x and \$4.8 billion of liquidity. Given its balance-sheet strength and prudent financial management, the company remains well poised to capitalize on growth opportunities.
- ▲ Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Prologis remains committed to that. This February, the company's board increased its annualized dividend rate by 9.4% to \$2.32 from the \$2.12 paid earlier. Given the company's financial position and lower debt-to-equity ratio compared to that of the industry, this dividend rate is expected to be sustainable.
- ▲ Over the past year, shares of Prologis have rallied 19.8% compared with the industry's growth of 3.6%. In addition, the trend in estimate revisions of 2020 FFO per share indicates a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share has been revised 1.4% upward over the past month. Therefore, given the improvement in fundamentals and positive estimate revisions, the stock has decent upside potential.

Amid healthy industrial real estate market, Prologis is well poised to benefit from its capacity to offer modern distribution facilities in strategic locations. The company also has decent balance sheet strength.

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## Reasons To Sell:

- ▼ Recovery in the industrial market has continued for long and a whole lot of new buildings are slated to be completed and made available in the market in the near term, leading to higher supply and lesser scope for rent and occupancy growth. Additionally, any protectionist trade policies and a pullback in manufacturing volumes will have an adverse impact on economic growth, as well as the company's business over the long term.
- ▼ Prologis generates a significant portion of its revenues from operations outside the United States. Therefore, state of affairs and developments, associated with international operations, have an impact on performance. Moreover, given its international presence, Prologis often faces unfavorable foreign currency movements and other economic fluctuations that impair top-line growth.
- ▼ Although interest rate levels are low at present, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout might become less attractive than the yields on fixed income and money-market accounts.
- ▼ Prologis faces significant competition from other REITs and private institutional funds. A competitive market lowers the company's ability to lease its properties, raise rents and acquire or dispose assets at favorable terms.

Rising number of new facilities, competitive landscape and protectionist trade policies are the company's chief concerns. Also, given its international presence, it is susceptible to foreign currency risk.

## Last Earnings Report

### Prologis' Q4 FFO Meets Estimates, Revenues Up Y/Y

Prologis reported fourth-quarter 2019 core FFO per share of 84 cents, in line with the Zacks Consensus Estimate. Results compared favorably with the year-ago figure of 80 cents. Notably, the company had net promote income of 2 cents in the reported quarter, while 5 cents of promotes were earned in the year-ago period.

The company witnessed net effective rent growth in the fourth quarter, but period-end occupancy moderated slightly as it prioritized rent over occupancy. The industrial REIT has also provided its guidance for 2020 core FFO per share.

Prologis generated rental revenues of \$723.8 million, which registered 6.6% growth from the prior-year quarter. However, the figure missed the Zacks Consensus Estimate of \$726.7 million.

For full-year 2019, core FFO per share came in at \$3.31, ahead of the Zacks Consensus Estimate of \$3.30 per share and the prior-year tally of \$3.03. This was backed by 18.5% year-over-year growth in rental revenues to \$2.8 billion.

Quarter Ending **12/2019**

| Report Date      | Jan 22, 2020 |
|------------------|--------------|
| Sales Surprise   | -0.40%       |
| EPS Surprise     | 0.00%        |
| Quarterly EPS    | 0.84         |
| Annual EPS (TTM) | 3.31         |

### Quarter in Detail

At the end of the reported quarter, occupancy level in the company's owned-and-managed portfolio was 96.5%, down 100 basis points year over year, indicating its strategy of prioritizing rent over occupancy. Nonetheless, during this period, 38 million square feet of leases commenced in the company's owned-and-managed portfolio, up from 35 million square feet in the year-ago period.

Prologis' share of net effective rent change was 29.5% in the December-end quarter compared with the 25.6% recorded a year ago. This was driven by the United States at 34.1%. Cash rent change was 15% compared with the 25.6% recorded in the year-earlier quarter. Nonetheless, cash same-store NOI registered 4.6% growth compared with the 4.5% increase reported in the comparable period last year.

In fourth-quarter 2019, Prologis' share of building acquisitions amounted to \$175 million, with a weighted average stabilized cap rate of 4.9%. Development stabilization aggregated \$627 million, while development starts totaled \$1,714 million, with 39.2% being build-to-suit. Furthermore, the company's total dispositions and contributions came in at \$734 million, with weighted average stabilized cap rate (excluding land and other real estate) of 4.4%.

### Liquidity

The company exited 2019 with cash and cash equivalents of \$1.08 billion, up from the \$1.02 billion recorded at the end of the previous quarter. Prologis ended the October-December quarter with leverage of 18.3% on a market capitalization basis and debt-to-adjusted EBITDA of 4x and \$4.8 billion of liquidity.

Notably, during the quarter, the company and its co-investment ventures issued \$10.5 billion of debt. This was done at a weighted average fixed interest rate of 1.7% and a weighted average term of 8 years.

### 2020 Outlook

Prologis has issued its guidance for full-year 2020. The company projects core FFO per share at \$3.67-\$3.75.

The company forecasts year-end occupancy of 96-97% and cash same-store NOI (Prologis share) of 4.25-5.25%.

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## Recent News

### Prologis Completes Liberty Property Trust Acquisition – Feb 4, 2020

Prologis has accomplished the \$13 billion acquisition of Liberty Property Trust in an all-stock deal, including the assumption of debt. The acquisition strengthens Prologis' presence in target regions such as Chicago, Lehigh Valley, New Jersey, Houston, Central PA, and Southern California.

Per the transaction terms, each share of Liberty common stock was converted into the right to receive 0.675 shares of Prologis common stock.

This transaction is expected to create immediate cost and long-term revenue synergies, including around \$120 million emanating from corporate and general administrative cost savings, operating leverage, lower interest expense as well as lease adjustments.

The acquisition leads to addition of a logistics operating portfolio spanning 108 million square feet of space. Furthermore, through this buyout, Prologis added 4.9 million square feet of logistics development in progress. Also, it brings in 1,748 acres of land for future logistics development with build-out potential of 20.5 million square feet and 3.8-million-square-foot office operating and development portfolio.

### Prologis' Acquisition of IPT for \$4B Reaches Pinnacle – Jan 8, 2020

Prologis' acquisition of the wholly-owned real estate assets of IPT reached its finale, when the former shelled out \$4 billion in cash, including the assumption and repayment of debt, for the transaction.

Specifically, IPT is a sponsored investment fund of Black Creek Group, a real estate investment manager and development company. Prologis has acquired IPT's properties through its two U.S. co-investment ventures, split evenly between USLV and USLF.

The acquired portfolio consists of 37.5 million square feet of highly-leased industrial properties and 236 properties across 24 geographic areas, 96% of which overlaps Prologis' existing footprint.

The transaction will expand Prologis' presence in strategic markets across the United States, including Southern California, Chicago, the San Francisco Bay Area, Atlanta, Seattle, Dallas and New Jersey.

Per management, through this acquisition, the company has added high-quality assets that are positioned in markets providing excellent long-term investment potential. Moreover, it has added 450 customers through this deal, 172 of which are existing relationships with Prologis. Further, the company anticipates leveraging on the benefit of its large-scale and operating expertise, in order to deliver better services to customers and maximize shareholder value.

### Dividend Update

On Feb 20, ushering in good news for its shareholders, Prologis' board approved a 9.4% hike in its annualized dividend rate to \$2.32 from what it paid in aggregate to stockholders in the prior year. The company announced a dividend of 58 cents per share against 53 cents paid in the previous quarter. The increased dividend will be paid on Mar 31, to shareholders of record on Mar 16, 2020.

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## Valuation

Prologis' shares have surged 19.9% over the trailing 12-month period. Stocks in the Zacks sub-industry gained 3.7%, while the Zacks Finance sector declined 3.9%, over the past year.

The S&P 500 Index has been up 4.9% over the trailing 12-month period.

The stock is currently trading at 22.46X forward 12-month FFO, which compares to 16.84X for the Zacks sub-industry, 13.18X for the Zacks sector and 16.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 26.96X and as low as 13.88X, with a 5-year median of 20.68X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$89 price target reflects 23.72X FFO.

The table below shows summary valuation data for PLD.

| Valuation Multiples - PLD |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                 | Current       | 22.46 | 16.84        | 13.18  | 16.87   |
|                           | 5-Year High   | 26.96 | 18.7         | 16.21  | 19.34   |
|                           | 5-Year Low    | 13.88 | 14.32        | 12.01  | 15.18   |
|                           | 5-Year Median | 20.68 | 16.1         | 13.97  | 17.44   |
| P/S F12M                  | Current       | 16.21 | 7.6          | 6.55   | 3.12    |
|                           | 5-Year High   | 20.39 | 8.15         | 6.65   | 3.43    |
|                           | 5-Year Low    | 7.88  | 5.91         | 5.39   | 2.54    |
|                           | 5-Year Median | 13.22 | 6.87         | 6.04   | 3.01    |
| P/B TTM                   | Current       | 2.05  | 2.49         | 2.51   | 3.96    |
|                           | 5-Year High   | 2.41  | 2.87         | 2.89   | 4.54    |
|                           | 5-Year Low    | 1.02  | 2.07         | 1.83   | 2.85    |
|                           | 5-Year Median | 1.67  | 2.52         | 2.52   | 3.62    |

As of 02/28/2020

## Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 254)



## Top Peers

|                                          |         |
|------------------------------------------|---------|
| Americold Realty Trust (COLD)            | Neutral |
| Duke Realty Corporation (DRE)            | Neutral |
| EastGroup Properties, Inc. (EGP)         | Neutral |
| First Industrial Realty Trust, Inc. (FR) | Neutral |
| PS Business Parks, Inc. (PSB)            | Neutral |
| Rexford Industrial Realty, Inc. (REXR)   | Neutral |
| Stag Industrial, Inc. (STAG)             | Neutral |
| Terreno Realty Corporation (TRNO)        | Neutral |

| Industry Comparison Industry: Reit And Equity Trust - Other |             |            |           | Industry Peers |             |            |
|-------------------------------------------------------------|-------------|------------|-----------|----------------|-------------|------------|
|                                                             | PLD Neutral | X Industry | S&P 500   | DRE Neutral    | EGP Neutral | FR Neutral |
| <b>VGM Score</b>                                            | <b>D</b>    | -          | -         | <b>D</b>       | <b>F</b>    | <b>C</b>   |
| Market Cap                                                  | 62.26 B     | 2.68 B     | 21.48 B   | 11.96 B        | 4.89 B      | 4.89 B     |
| # of Analysts                                               | 4           | 4          | 13        | 7              | 8           | 7          |
| Dividend Yield                                              | 2.52%       | 4.37%      | 2.07%     | 2.89%          | 2.39%       | 2.39%      |
| <b>Value Score</b>                                          | <b>F</b>    | -          | -         | <b>F</b>       | <b>F</b>    | <b>F</b>   |
| Cash/Price                                                  | 0.01        | 0.02       | 0.04      | 0.01           | 0.00        | 0.03       |
| EV/EBITDA                                                   | 23.79       | 16.22      | 12.57     | 18.56          | 23.13       | 15.11      |
| PEG Ratio                                                   | 4.05        | 2.90       | 1.84      | 4.69           | 5.33        | NA         |
| Price/Book (P/B)                                            | 2.39        | 1.49       | 2.88      | 2.35           | 4.07        | 2.72       |
| Price/Cash Flow (P/CF)                                      | 20.23       | 13.41      | 11.58     | 15.66          | 21.62       | 13.24      |
| P/E (F1)                                                    | 22.66       | 14.81      | 16.87     | 21.44          | 23.74       | 21.00      |
| Price/Sales (P/S)                                           | 18.69       | 6.03       | 2.34      | 12.28          | 14.76       | 11.48      |
| Earnings Yield                                              | 4.41%       | 6.76%      | 5.91%     | 4.65%          | 4.22%       | 4.75%      |
| Debt/Equity                                                 | 0.46        | 0.88       | 0.70      | 0.57           | 0.98        | 0.82       |
| Cash Flow (\$/share)                                        | 4.17        | 1.99       | 6.94      | 2.07           | 5.82        | 2.91       |
| <b>Growth Score</b>                                         | <b>C</b>    | -          | -         | <b>B</b>       | <b>D</b>    | <b>B</b>   |
| Hist. EPS Growth (3-5 yrs)                                  | 10.85%      | 2.84%      | 10.85%    | 4.24%          | 7.75%       | 6.16%      |
| Proj. EPS Growth (F1/F0)                                    | 12.46%      | 3.41%      | 6.79%     | 5.16%          | 6.35%       | 5.34%      |
| Curr. Cash Flow Growth                                      | 3.51%       | 3.85%      | 5.92%     | 9.22%          | 25.62%      | 28.05%     |
| Hist. Cash Flow Growth (3-5 yrs)                            | 15.92%      | 15.29%     | 8.38%     | 4.03%          | 13.87%      | 19.83%     |
| Current Ratio                                               | 1.54        | 1.28       | 1.23      | 1.05           | 0.00        | 1.65       |
| Debt/Capital                                                | 31.35%      | 46.78%     | 42.53%    | 36.46%         | 49.59%      | 45.21%     |
| Net Margin                                                  | 47.23%      | 14.28%     | 11.57%    | 44.05%         | 36.71%      | 56.05%     |
| Return on Equity                                            | 6.09%       | 4.52%      | 16.80%    | 8.80%          | 11.45%      | 13.91%     |
| Sales/Assets                                                | 0.09        | 0.13       | 0.54      | 0.12           | 0.14        | 0.13       |
| Proj. Sales Growth (F1/F0)                                  | 33.54%      | 4.58%      | 4.07%     | 4.64%          | 10.01%      | 5.47%      |
| <b>Momentum Score</b>                                       | <b>D</b>    | -          | -         | <b>B</b>       | <b>A</b>    | <b>A</b>   |
| Daily Price Chg                                             | -2.80%      | -2.45%     | -1.44%    | -4.16%         | -1.90%      | -3.68%     |
| 1 Week Price Chg                                            | 1.72%       | 0.00%      | -0.94%    | 0.91%          | 0.18%       | -1.11%     |
| 4 Week Price Chg                                            | -12.40%     | -9.44%     | -10.98%   | -11.60%        | -9.01%      | -12.02%    |
| 12 Week Price Chg                                           | -7.74%      | -6.89%     | -7.84%    | -7.83%         | -6.89%      | -9.16%     |
| 52 Week Price Chg                                           | 20.30%      | -1.12%     | 1.20%     | 9.81%          | 19.00%      | 14.86%     |
| 20 Day Average Volume                                       | 5,190,924   | 524,733    | 2,169,477 | 2,154,198      | 163,877     | 705,735    |
| (F1) EPS Est 1 week change                                  | 0.00%       | 0.00%      | 0.00%     | 0.09%          | 0.05%       | 0.09%      |
| (F1) EPS Est 4 week change                                  | 0.26%       | -0.10%     | -0.09%    | -0.09%         | 0.33%       | 0.29%      |
| (F1) EPS Est 12 week change                                 | 1.63%       | -0.19%     | -0.24%    | -0.19%         | 0.42%       | 0.22%      |
| (Q1) EPS Est Mthly Chg                                      | -1.43%      | 0.00%      | -0.72%    | -1.40%         | 0.91%       | -0.22%     |



## 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   | 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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