

Prologis Inc. (PLD)

\$97.93 (As of 07/21/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

Prologis' better-than-expected core funds from operations (FFO) per share in the second quarter reflects growth in rental income, healthy occupancy level and net promote income. It revised the full-year core FFO per share guidance upward on improving market conditions. E-commerce is a driving factor though demand is broad-based across a variety of categories, per management. Apart from fast adoption of e-commerce, logistics real estate is anticipated to benefit from a likely increase in inventory levels. Given Prologis' capacity, the company remains well poised to capitalize on this favorable trend. Shares of Prologis have outperformed its industry in the past year. However, the pandemic's adverse impact on economy will likely affect demand for space in the near term. Also, a development boom in some markets is concerning.

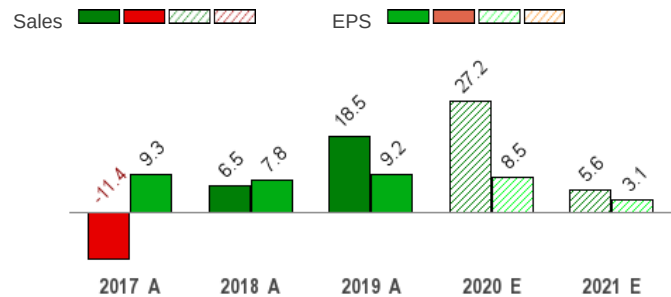
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.79 - \$59.82
20 Day Average Volume (sh)	3,176,087
Market Cap	\$72.3 B
YTD Price Change	9.9%
Beta	0.94
Dividend / Div Yld	\$2.32 / 2.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 27% (184 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.1%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	3.8%
Expected Report Date	10/20/2020
Earnings ESP	1.7%
P/E TTM	26.1
P/E F1	27.3
PEG F1	4.9
P/S TTM	18.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	882 E	895 E	907 E	920 E	3,804 E
2020	879 A	944 A	934 E	945 E	3,601 E
2019	697 A	701 A	710 A	724 A	2,832 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.92 E	\$0.93 E	\$0.97 E	\$3.70 E
2020	\$0.83 A	\$1.11 A	\$0.87 E	\$0.91 E	\$3.59 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 07/21/2020. The reports text is as of 07/22/2020.

Overview

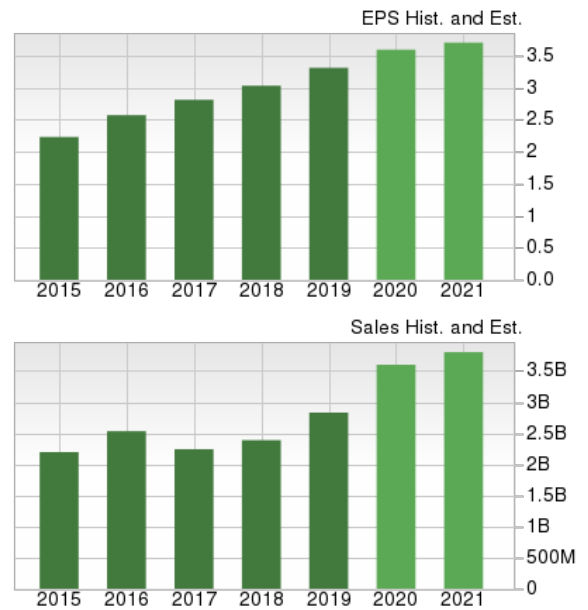
Prologis Inc. is a leading industrial real estate investment trust (REIT) that acquires, develops, operates and manages industrial real estate space in the Americas, Asia and Europe. The company principally targets investments in distribution facilities for customers who are engaged in global trade and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

As of Jun 30, 2020, Prologis owned or had investments in properties and development projects aggregating around 963 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 5,500 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 resulted in 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 brought 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 consisted 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.



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. Moreover, in light of the coronavirus pandemic, warehouse operations have become more essential with more e-commerce customers. Over the long term, apart from the fast adoption of e-commerce, logistics real estate is expected to benefit from a likely increase in inventory levels post crisis. Given Prologis' solid capacity, the company remains well poised to bank on this trend.
- ▲ Prologis is witnessing decent operating performance amid the pandemic. At the end of the reported quarter, occupancy level in the company's owned-and-managed portfolio was 95.7%. During the second quarter, 42 million square feet of leases commenced in the company's owned-and-managed portfolio, with 39 million square feet being in the operating portfolio and roughly 3 million square feet in the development portfolio. Management noted that leasing in the quarter was well diversified by industry, including non-essential industries. Retention level was 80.9% in the quarter, denoting an expansion of 540 basis points from the prior quarter. Prologis' share of net effective rent change was 22% during the April-June quarter, driven by the United States at 27.7%. Cash rent change was 9.6%, while cash same-store net operating income (NOI) registered 2.9% growth.
- ▲ With healthy operating fundamentals in the industrial real estate markets, Prologis has capitalized 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 ended the quarter with \$4.6 billion in liquidity. Debt, as a percentage of total market capitalization, was 20% at quarter end. The combined investment capacity of Prologis and its open-ended vehicles, at levels in line with their current credit ratings, is above \$13 billion. Prologis and its co-investment ventures accomplished \$1.6 billion of debt activity during the quarter, at a weighted average rate of 1.8% and a weighted average term of nearly 13 years. Moreover, at quarter end, the company's weighted average rate on its share of total debt was 2.3%, with a weighted average remaining term of 9.1 years. The company's credit ratings at Jun 30, 2020, were A3 from Moody's and A- from Standard & Poor's, both with stable outlook, allowing the company to borrow at an advantageous rate. 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 annual dividend rate by 9.4% to \$2.32 from the \$2.12 paid earlier. Further, management noted that it continues to maintain significant dividend coverage at 1.6 times and its 2020 guidance implies a payout ratio in the mid-60% range and free cash flow after dividends of \$1 billion. Given the company's solid operating platform, scope for growth and decent financial position compared to that of the industry, this dividend rate is expected to be sustainable.
- ▲ Over the past year, shares of Prologis have rallied 18.6% against the industry's decline of 7.1%. Moreover, the trend in estimate revisions of third-quarter 2020 FFO per share indicates a favorable outlook for the company as the estimates have moved marginally northward over the past week. Therefore, given the progress on fundamentals and upward 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.

Reasons To Sell:

- ▼ Recovery in the industrial market has continued for long and market rents are expected to remain nearly flat for the back half of the year. Moreover, industrial real estate fundamentals though seems more resilient than other asset categories, but not immune. In the second half of the year, there are concerns associated with the timing and nature of economies reopening. As such, the pandemic's adverse impact on the economy will likely affect demand for space in the near term.
- ▼ Furthermore, with the asset category being an attractive in the current challenging times, there is a development boom in some markets. This high supply is likely to fuel competition, curb pricing power and turn on more concessions. Though rent collection trends are decent so far, rent relief and deferrals will likely remain an issue, specifically, for the company's smaller tenants that are adversely impacted by the virus outbreak.
- ▼ 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.

Slowdown in the economy amid the coronavirus pandemic will likely affect the demand for industrial real estate in the near term. Moreover, a development boom in some markets is concerning.

Last Earnings Report

Prologis' Q2 FFO & Revenues Top Estimates, View Up

Prologis reported second-quarter 2020 core FFO per share of \$1.11, beating the Zacks Consensus Estimate of 99 cents. Results also compared favorably with the year-ago figure of 77 cents.

This better-than-expected performance was driven by decent growth in rental income. Occupancy level was healthy. The company also reported 23 cents of net promote income in the quarter as against no such income in the prior-year period.

Prologis generated rental revenues of \$944.4 million, which registered 34.8% growth from the prior-year quarter. The figure also surpassed the Zacks Consensus Estimate of \$927.3 million. The company also revised its full-year core FFO per share guidance northward compared with the one issued in April.

According to Hamid R. Moghadam, chairman and CEO of the company, "While e-commerce is clearly a tailwind, demand is broad-based across a variety of categories — a trend we saw accelerate in June."

The company's chief financial officer also noted that though the economic impact of COVID-19 remains unknown, its proprietary data, pace of rent collections, as well as dialogue with customers gives "a more positive outlook for the back half of the year".

Quarter in Detail

At the end of the reported quarter, occupancy level in the company's owned-and-managed portfolio was 95.7%. During the second quarter, 42 million square feet of leases commenced in the company's owned-and-managed portfolio, with 39 million square feet being in the operating portfolio and roughly 3 million square feet in the development portfolio. Retention level was 80.9% in the quarter, denoting an expansion of 540 basis points from the prior quarter.

Prologis' share of net effective rent change was 22% during the April-June quarter, driven by the United States at 27.7%. Cash rent change was 9.6%, while cash same-store net operating income (NOI) registered 2.9% growth.

Amid the macroeconomic uncertainty, Prologis' share of building acquisitions amounted to \$8 million, with a weighted average stabilized cap rate of 7.6% during the quarter. Development stabilization aggregated \$333 million, while development starts totaled \$66 million, with 100% being build-to-suit. Furthermore, the company's total dispositions and contributions came in at \$304 million, with weighted average stabilized cap rate (excluding land and other real estate) of 6%.

Liquidity

The company exited the June-end quarter with cash and cash equivalents of \$549.1 million, down from the \$807.9 million recorded at the end of first-quarter 2020. However, combined with availability from other lines, Prologis ended the quarter with \$4.6 billion in liquidity. Debt, as a percentage of total market capitalization, was 20% at quarter end.

The combined investment capacity of Prologis and its open-ended vehicles, at levels in line with their current credit ratings, is well above \$13 billion. Prologis and its co-investment ventures accomplished \$1.6 billion of debt activity during the quarter, at a weighted average rate of 1.8% and a weighted average term of nearly 13 years. Moreover, at quarter end, the company's weighted average rate on its share of total debt was 2.3%, with a weighted average remaining term of 9.1 years.

Outlook

Prologis projects 2020 core FFO per share at \$3.70-\$3.75 compared with the prior guidance of \$3.55-\$3.65.

It forecasts year-end occupancy of 95-96% compared with the 94.5-96% guided earlier. Cash same-store NOI (Prologis share) is projected in the range of 2.5-3.5% compared with the 1.75-3.25% expected earlier.

Moreover, the company projects \$500-\$600 million of building acquisitions compared with the \$450 million projected earlier, while development starts are expected to be \$800-\$1,200 million as against the prior estimate of \$500-\$800 million for this year.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	1.84%
EPS Surprise	12.12%
Quarterly EPS	1.11
Annual EPS (TTM)	3.75

Recent News

Dividend Update

On Apr 29, Prologis' board announced a regular cash dividend of 58 cents per share for second-quarter 2020. The dividend was paid on Jun 30, to shareholders of record on Jun 16, 2020.

Valuation

Prologis' shares have rallied 18.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 7.1% and 14.3%, over the past year, respectively.

The S&P 500 Index is up 9% over the past year.

The stock is currently trading at 26.80X forward 12-month FFO, which compares with the 18.38X for the Zacks sub-industry, 16.51X for the Zacks sector and 23.02X 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 20.95X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$104 price target reflects 28.46X 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	26.8	18.38	16.51	23.02
	5-Year High	26.96	18.43	16.51	23.02
	5-Year Low	13.88	14.32	11.59	15.25
	5-Year Median	20.95	16.08	14.16	17.52
P/S F12M	Current	19.48	7.89	6.04	3.61
	5-Year High	20.39	8.21	6.66	3.61
	5-Year Low	7.88	5.97	4.96	2.53
	5-Year Median	14	6.97	6.06	3.02
P/B TTM	Current	1.97	2.33	2.40	4.46
	5-Year High	2.41	3.03	2.91	4.56
	5-Year Low	1.02	1.81	1.72	2.83
	5-Year Median	1.74	2.51	2.53	3.71

As of 07/21/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Americold Realty Trust (COLD)	Neutral	3
Duke Realty Corporation (DRE)	Neutral	2
EastGroup Properties, Inc. (EGP)	Neutral	3
First Industrial Realty Trust, Inc. (FR)	Neutral	3
PS Business Parks, Inc. (PSB)	Neutral	2
Rexford Industrial Realty, Inc. (REXR)	Neutral	2
Stag Industrial, Inc. (STAG)	Neutral	3
Terreno Realty Corporation (TRNO)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	PLD	X Industry	S&P 500	DRE	EGP	FR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	C	-	-	D	C	F
Market Cap	72.33 B	1.96 B	22.70 B	13.41 B	4.68 B	5.00 B
# of Analysts	9	4	14	5	7	7
Dividend Yield	2.37%	4.29%	1.81%	2.58%	2.51%	2.54%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.07	0.06	0.01	0.00	0.03
EV/EBITDA	28.38	13.74	13.09	18.93	22.57	15.82
PEG Ratio	4.88	3.70	3.03	5.92	5.63	NA
Price/Book (P/B)	1.97	1.23	3.12	2.67	3.92	2.79
Price/Cash Flow (P/CF)	23.51	10.30	12.23	17.55	20.59	13.53
P/E (F1)	27.28	14.56	22.36	25.34	23.15	22.11
Price/Sales (P/S)	18.03	4.75	2.42	14.33	13.71	11.59
Earnings Yield	3.67%	6.06%	4.31%	3.96%	4.32%	4.53%
Debt/Equity	0.43	0.92	0.75	0.63	1.05	0.92
Cash Flow (\$/share)	4.17	2.05	6.94	2.07	5.82	2.91
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	10.27%	1.92%	10.82%	4.84%	7.77%	5.83%
Proj. EPS Growth (F1/F0)	8.56%	-3.43%	-9.08%	-0.28%	3.87%	2.22%
Curr. Cash Flow Growth	3.51%	3.36%	5.51%	9.22%	25.62%	28.05%
Hist. Cash Flow Growth (3-5 yrs)	15.92%	12.74%	8.55%	4.21%	13.87%	19.83%
Current Ratio	0.20	1.83	1.31	1.97	0.01	1.64
Debt/Capital	29.89%	48.50%	44.41%	38.50%	51.19%	47.87%
Net Margin	43.27%	12.85%	10.54%	43.19%	35.88%	59.20%
Return on Equity	5.54%	3.98%	15.38%	8.14%	10.83%	14.63%
Sales/Assets	0.08	0.13	0.54	0.11	0.14	0.13
Proj. Sales Growth (F1/F0)	27.15%	0.00%	-2.40%	2.66%	8.05%	2.33%
Momentum Score	C	-	-	C	A	F
Daily Price Chg	3.38%	0.90%	0.86%	1.68%	0.28%	0.74%
1 Week Price Chg	0.55%	0.90%	3.82%	0.81%	2.24%	2.53%
4 Week Price Chg	7.09%	-3.36%	3.42%	2.83%	0.83%	3.94%
12 Week Price Chg	9.31%	2.47%	9.22%	0.52%	9.23%	4.80%
52 Week Price Chg	18.57%	-21.27%	-3.38%	9.48%	1.28%	4.41%
20 Day Average Volume	3,176,087	748,149	2,069,527	2,155,615	214,481	1,862,672
(F1) EPS Est 1 week change	3.79%	0.00%	0.00%	0.07%	0.03%	-0.22%
(F1) EPS Est 4 week change	3.82%	0.00%	0.13%	0.19%	0.03%	-0.22%
(F1) EPS Est 12 week change	3.88%	-2.38%	-3.85%	-0.97%	0.54%	-0.55%
(Q1) EPS Est Mthly Chg	0.50%	0.00%	0.00%	0.68%	0.26%	-1.01%

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	B
Momentum Score	C
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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