

## Public Storage (PSA)

**\$227.25** (As of 02/12/20)

Price Target (6-12 Months): **\$241.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 02/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: C

### Summary

Public Storage, an established name in the self-storage industry in the nation, has presence in all major metropolitan markets. The company continues to benefit from healthy demand for self-storage space amid favorable demographics in its markets. Moreover, backed by strong balance sheet position and adequate liquidity, this self-storage REIT continues to actively pursue acquisitions and developments, which augur well for its long-term growth. However, the unfavorable impact of higher expenses for its same-store facilities, resulting from elevated marketing expenses and property taxes, remains a concern. Further, there is a development boom of self-storage units in many of its markets, which is likely to intensify competition, curb its ability to raise rents and offer discounts. Its shares have underperformed the industry over the past year.

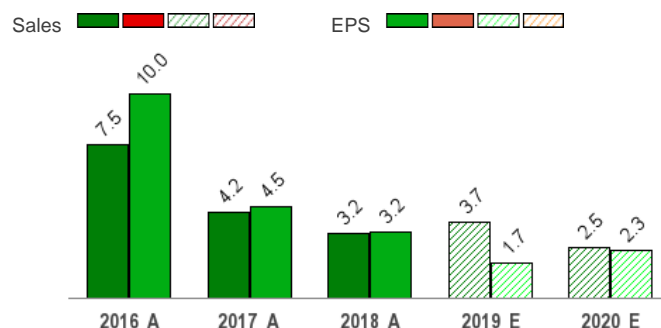
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$266.76 - \$199.53
20 Day Average Volume (sh)	772,634
Market Cap	\$39.7 B
YTD Price Change	6.7%
Beta	0.08
Dividend / Div Yld	\$8.00 / 3.5%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 36% (162 out of 254)

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



Last EPS Surprise	-0.4%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	02/25/2020
Earnings ESP	0.3%
P/E TTM	21.2
P/E F1	20.7
PEG F1	5.2
P/S TTM	14.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	717 E	733 E	750 E	737 E	2,926 E
2019	689 A	711 A	729 A	720 E	2,855 E
2018	670 A	686 A	706 A	692 A	2,754 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.61 E	\$2.71 E	\$2.77 E	\$2.90 E	\$10.99 E
2019	\$2.52 A	\$2.64 A	\$2.73 A	\$2.86 E	\$10.74 E
2018	\$2.48 A	\$2.65 A	\$2.70 A	\$2.81 A	\$10.56 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 02/12/2020. The reports text is as of 02/13/2020.

## Overview

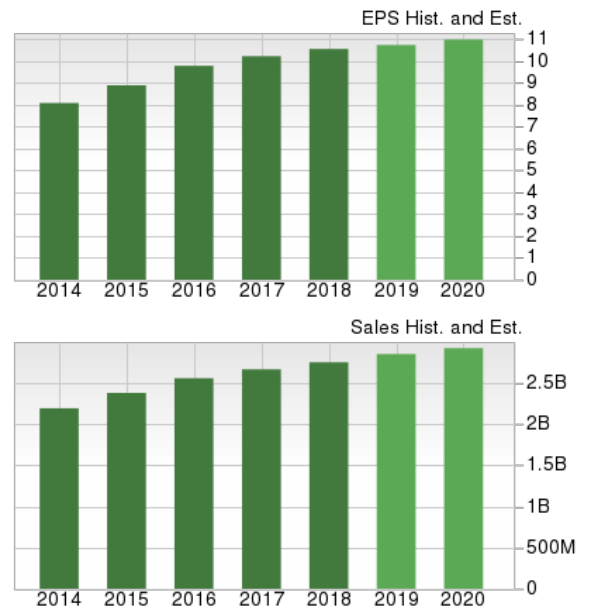
Glendale, CA-based Public Storage is a leading self-storage real estate investment trust in the United States. The company acquires, develops, owns and operates self-storage facilities, generally on a month-to-month basis for business as well as personal use.

As of Sep 30, 2019, Public Storage had interests in 2,468 self-storage facilities (having around 167 million net rentable square feet) across 38 U.S. states. Moreover, the company had approximately 35% common equity interest in Shurgard Self Storage SA ("Shurgard Europe"), which owned 231 self-storage facilities (comprising 13 million net rentable square feet) in seven countries in Western Europe. These facilities are operated under the "Shurgard" brand name.

In addition, as of the above-mentioned date, the company had 42% common equity interest in PS Business Parks — a REIT with commercial properties — with approximately 29 million rentable square feet of commercial space.

Notably, on Oct 15, 2018, Shurgard Europe completed an initial public offering. Its shares started trading on Euronext Brussels under the "SHUR" symbol. Shurgard Europe issued 25 million of its common shares to third parties, at a price of €23 per share. As a result of this offering, Public Storage's equity interest, consisting of a direct and indirect pro-rata ownership interest in 31.3 million shares, shrunk from 49% to 35.2%. Therefore, even with no share sell-off, the company recorded a gain on disposition of \$151.6 million in the fourth quarter 2019, which appeared as if the company had sold a proportionate share of its investment in Shurgard Europe.

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:

- ▲ Public Storage is one of the largest owners and operators of storage facilities in the United States. The 'Public Storage' brand is the most recognized and established name in the self-storage industry, with presence in all major metropolitan markets of the United States. Moreover, the company remains well poised to benefit from the healthy fundamentals of the European markets through its approximately 35% stake in Shurgard Self Storage SA. In fact, the "Shurgard" brand, used by Shurgard Europe, is a well-established and valuable brand in Europe.
- ▲ Self-storage industry's fundamentals are likely to be driven by high demand, backed by favorable demographic changes, healthy job market and rising incomes, migration and downsizing trend, and declining home ownership and the resultant increase in the number of people renting homes. Moreover, due to shorter leasing periods, this REIT has the power to adjust its rents quickly to any rate hike.
- ▲ In addition, the company has been capitalizing on growth opportunities. In fact, since the beginning of 2013 through Sep 30, 2019, the company has acquired 328 facilities with 22.8 million net rentable square feet from third parties for approximately \$3 billion. Additionally, the company opened newly-developed and expanded self-storage space for a total cost of \$1.5 billion, adding around 14.5 million net rentable square feet. Following Sep 30, 2019, the company acquired or was under contract to acquire eight self-storage facilities, spanning 0.6 million net rentable square feet of space, for \$69.6 million. Finally, as of Sep 30, 2019, the company had several facilities in development (1.3 million net rentable square feet), with an estimated cost of \$219 million, as well as expansion projects (2.4 million net rentable square feet) worth roughly \$313 million. Public Storage estimates to incur the remaining \$348 million of development costs related to these projects, mainly over the next 18 months.
- ▲ Public Storage has one of the strongest balance sheets in the sector, with adequate liquidity to actively pursue acquisitions and developments. The company exited third-quarter 2019 with around \$541.4 million of cash and cash equivalents, up from the \$361.2 million recorded at the end of 2018. Moreover, during the second quarter, the company amended its \$500-million revolving line of credit. The move helped extension of the maturity date from Mar 31, 2020 to Apr 19, 2024, as well as lower the current effective borrowing spread over LIBOR from 0.850% to 0.70%, and the current effective facility fee from 0.080% to 0.070%. In addition, solid dividend payouts are arguably the biggest enticement for investment in REIT stocks and given the company's financial position and lower debt-to-equity ratio compared to that of the industry, the company's current dividend payout is expected to be sustainable.

High brand value, strategic acquisitions, robust presence in key cities and healthy balance sheet serve as major growth drivers for Public Storage.

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## Reasons To Sell:

- ▼ Public Storage operates in a highly fragmented market in the United States, with intense competition from numerous private, regional and local operators. In addition, in recent years, supply has been increasing in a number of markets. This increase in supply has been most prominent in Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, New York, and Portland. Particularly, deliveries are expected to remain elevated this year and in the next, which is likely to fuel competition for the company, curb its power to raise rents and turn on more discounting.
- ▼ The company has a significant development and refurbishment pipeline. In fact, as of Sep 30, 2019, the company had several facilities in development (1.3 million net rentable square feet), with an estimated cost of \$219 million, as well as expansion projects (2.4 million net rentable square feet) worth roughly \$313 million. Public Storage estimates to incur the remaining \$348 million of development costs related to these projects, mainly over the next 18 months. Though this is encouraging, the substantial pipeline increases the operational risks and exposes the company to rising construction costs, entitlement delays and failure to fulfill government requirements. Further, self-storage spaces are not usually pre-leased and new assets generally take time to generate yields.
- ▼ 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.
- ▼ Shares of Public Storage have gained 9.2% over the past year, while its industry appreciated 16.7%. Furthermore, the trend in estimate revisions for the current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for the same witnessed marginal downward revision over the past two months. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential.

Highly fragmented market in the United States, with intense competition from numerous private, regional and local operators, rising supply and a large development pipeline remain key concerns.

## Last Earnings Report

### Public Storage Q3 FFO Lags Estimates, Expenses Flare Up

Public Storage's third-quarter 2019 core FFO per share of \$2.73 improved 1.1% from the prior-year figure of \$2.70. However, the reported figure missed the Zacks Consensus Estimate by a penny.

Quarterly revenues of \$729.3 million climbed 3.3% from the prior-year quarter but narrowly missed the Zacks Consensus Estimate of \$732.9 million.

The company's lower-than-expected FFO per share reflects the unfavorable impact of higher expenses in the quarter for its same-store facilities, resulting from elevated marketing expenses and property taxes. Nevertheless, higher realized annual rent per occupied square foot and uptick in occupancy supported its same-store revenues. Additionally, Public Storage benefited from its expansion efforts in the reported quarter.

#### Behind the Headlines

Same-store revenues inched up 1.1% year over year to nearly \$611.2 million during the third quarter. This upside was primarily driven by a 0.7% increase in realized annual rent per occupied square foot to \$17.82. Weighted-average square foot occupancy of 94.2% expanded 40 basis points year over year.

However, same-store cost of operations also flared up 6.4% year over year to \$170.9 million, primarily reflecting rise in marketing expenses as well as uptick in property taxes. Consequently, the company's same-store NOI edged down 0.9% to \$440.4 million.

Nonetheless, the company's NOI from non-same store facilities grew on the back of the facilities acquired in 2018 and 2019, and the fill-up of the recently-developed and expanded facilities.

#### Portfolio Activity

During the September-end quarter, Public Storage bought 10 self-storage facilities, comprising 0.8 million net rentable square feet of area, for \$110.7 million. These included two each in Georgia and Massachusetts, and one each in Florida, Indiana, Minnesota, North Carolina, Tennessee and Texas. Following Sep 30, 2019, the company acquired or was under contract to acquire eight self-storage facilities, spanning 0.6 million net rentable square feet of space, for \$69.6 million.

Finally, as of Sep 30, 2019, the company had several facilities in development (1.3 million net rentable square feet), with an estimated cost of \$219 million, as well as expansion projects (2.4 million net rentable square feet) worth roughly \$313 million. Public Storage estimates to incur the remaining \$348 million of development costs related to these projects, mainly over the next 18 months.

#### Liquidity

Public Storage exited third-quarter 2019 with around \$541.4 million of cash and cash equivalents, up from the \$361.2 million recorded at the end of 2018.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-0.48%
EPS Surprise	-0.36%
Quarterly EPS	2.73
Annual EPS (TTM)	10.70

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## Recent News

### Public Storage Acquires New Units, Expands in Boston Area – Sep 26, 2019

Public Storage announced acquisition of two new climate controlled storage locations in Quincy and Everett, MA. The latest move increases the company's presence in the Boston area by 7% and is in sync with the company's expansion efforts. The buyouts bring more than 2,300 self-storage units to communities.

One of the acquired facilities, Public Storage 671 Washington St., Quincy, MA 02169, marks the company's first location in the region. The other one, Public Storage 1901 Revere Beach Pkwy, Everett, MA 02149, marks its second in Everett.

The properties proximity to Boston with the Boston Logan International Airport less than a 30-minute drive by car, and neighboring stops of "the T" subway system, make it a lucrative one.

Notably, Public Storage's latest expansion in the region is a strategic fit as population is on the rise in both towns. Moreover, according to Zillow.com, housing costs per square foot are higher than average for the Boston area. Further, job markets are robust in both towns with opportunities available in GE, biotech and academic institutions.

### Dividend Update

On Oct 23, 2019, Public Storage's board of trustees announced a regular quarterly dividend of \$2.00 per share. The amount was paid out on Dec 30 to shareholders of record as of Dec 13, 2019.

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## Valuation

Public Storage's shares have been up 9.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Finance sector have gained 16.7% and 10.9%, over the past year, respectively.

The S&P 500 Index is up 22.2% over the past year.

The stock is currently trading at 20.61X forward 12-month FFO, which compares to 19.01X for the Zacks sub-industry, 15.04X for the Zacks sector and 19.41X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 27.86X and as low as 17.05X, with a 5-year median of 20.81X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$241 price target reflects 21.86X FFO.

The table below shows summary valuation data for PSA.

Valuation Multiples - PSA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	20.61	19.01	15.04	19.41
	5-Year High	27.86	19.01	16.21	19.41
	5-Year Low	17.05	14.32	12.01	15.18
	5-Year Median	20.81	16.11	14.15	17.47
P/S F12M	Current	13.53	8.71	6.55	3.58
	5-Year High	18.29	8.71	6.65	3.58
	5-Year Low	11.42	5.91	5.39	2.54
	5-Year Median	13.74	6.88	6.04	3
P/B TTM	Current	7.9	2.98	2.86	4.36
	5-Year High	9.38	2.98	2.89	4.42
	5-Year Low	6.16	2.07	1.83	2.85
	5-Year Median	7.45	2.52	2.51	3.62

As of 02/12/2020

## Industry Analysis Zacks Industry Rank: Bottom 36% (162 out of 254)



## Top Peers

CubeSmart ( <b>CUBE</b> )	Neutral
Extra Space Storage Inc ( <b>EXR</b> )	Neutral
Innovative Industrial Properties, Inc. ( <b>IIPR</b> )	Neutral
Iron Mountain Incorporated ( <b>IRM</b> )	Neutral
Gladstone Land Corporation ( <b>LAND</b> )	Neutral
Life Storage, Inc. ( <b>LSI</b> )	Neutral
National Storage Affiliates Trust ( <b>NSA</b> )	Neutral
Safehold Inc. ( <b>SAFE</b> )	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	PSA Neutral	X Industry	S&P 500	CUBE Neutral	EXR Neutral	LSI Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>D</b>
Market Cap	39.70 B	3.04 B	24.53 B	6.22 B	14.53 B	5.32 B
# of Analysts	8	4	13	8	9	7
Dividend Yield	3.52%	3.95%	1.75%	4.11%	3.21%	3.75%
<b>Value Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>D</b>
Cash/Price	0.01	0.02	0.04	0.00	0.00	0.00
EV/EBITDA	23.31	18.40	13.98	21.38	22.34	18.99
PEG Ratio	5.21	3.55	2.09	5.74	4.52	4.62
Price/Book (P/B)	7.89	1.76	3.29	3.41	5.00	2.49
Price/Cash Flow (P/CF)	18.03	14.78	13.69	19.34	21.17	16.99
P/E (F1)	20.85	15.76	19.19	18.75	22.24	19.02
Price/Sales (P/S)	14.07	7.24	2.68	10.14	11.35	9.41
Earnings Yield	4.84%	6.34%	5.21%	5.32%	4.49%	5.25%
Debt/Equity	0.38	0.89	0.71	1.00	1.65	0.90
Cash Flow (\$/share)	12.60	2.26	6.92	1.66	5.30	6.71
<b>Growth Score</b>	<b>D</b>	-	-	<b>C</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	6.58%	2.91%	10.85%	10.20%	14.55%	4.81%
Proj. EPS Growth (F1/F0)	2.33%	3.75%	7.30%	2.01%	3.87%	6.80%
Curr. Cash Flow Growth	15.71%	12.17%	8.56%	9.53%	-0.90%	37.08%
Hist. Cash Flow Growth (3-5 yrs)	8.80%	16.89%	8.36%	19.52%	18.05%	21.65%
Current Ratio	1.22	1.26	1.23	0.09	0.54	0.28
Debt/Capital	17.72%	46.90%	42.91%	50.91%	62.33%	47.31%
Net Margin	60.98%	13.48%	11.81%	28.58%	34.38%	54.38%
Return on Equity	33.96%	4.47%	16.92%	9.98%	15.63%	14.85%
Sales/Assets	0.25	0.13	0.54	0.16	0.16	0.14
Proj. Sales Growth (F1/F0)	2.50%	4.76%	3.96%	5.38%	4.99%	4.86%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>B</b>
Daily Price Chg	0.39%	0.34%	0.64%	1.10%	0.55%	-0.59%
1 Week Price Chg	0.66%	1.85%	2.47%	0.03%	-0.42%	0.75%
4 Week Price Chg	4.12%	3.11%	1.87%	3.55%	2.35%	1.06%
12 Week Price Chg	6.45%	4.53%	6.69%	2.19%	4.85%	3.11%
52 Week Price Chg	9.28%	10.86%	16.42%	3.48%	12.93%	14.60%
20 Day Average Volume	772,634	466,548	2,019,212	1,312,720	665,113	235,150
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.15%	0.00%	0.00%
(F1) EPS Est 4 week change	0.06%	0.00%	-0.06%	-0.36%	-0.13%	-0.05%
(F1) EPS Est 12 week change	-0.39%	-0.09%	-0.19%	-0.53%	-0.11%	-0.47%
(Q1) EPS Est Mthly Chg	-0.29%	0.00%	-0.16%	0.00%	0.00%	-0.82%

## 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	D
Momentum Score	C
VGM Score	F

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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