

Public Storage (PSA)

\$211.34 (As of 03/13/20)

Price Target (6-12 Months): **\$224.00**

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: D

Summary

Public Storage reported a year-over-year increase in fourth-quarter 2019 funds from operations (FFO) per share but the metric missed expectations. Results reflect unfavorable impact of higher expenses in its same-store facilities, though higher realized annual rent per occupied square foot and uptick in occupancy supported its same-store revenues. The company continues to benefit from healthy demand for self-storage space amid favorable demographics in its markets. Backed by strong balance sheet position, this REIT continues to actively pursue expansions, which augur well for long-term growth. Also, its shares have outperformed the industry over the past year. Yet, increased expenses are likely to strain its earnings and an oversupply of self-storage units in many markets is likely to intensify competition, curbing its pricing power.

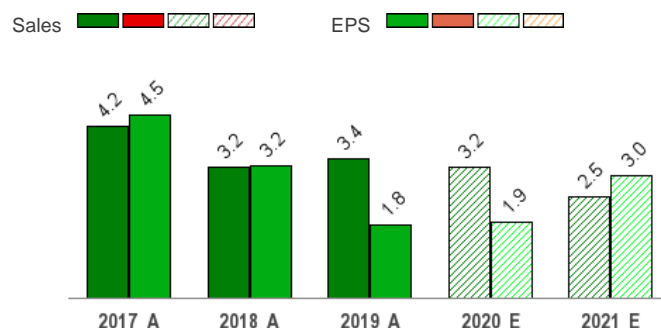
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$266.76 - \$193.50
20 Day Average Volume (sh)	1,427,470
Market Cap	\$36.9 B
YTD Price Change	-0.8%
Beta	0.18
Dividend / Div Yld	\$8.00 / 3.8%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 40% (153 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.7%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	05/06/2020
Earnings ESP	-0.3%
P/E TTM	19.7
P/E F1	19.3
PEG F1	4.8
P/S TTM	13.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	735 E	753 E	769 E	758 E	3,012 E
2020	721 E	736 E	754 E	744 E	2,938 E
2019	689 A	711 A	729 A	718 A	2,847 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.66 E	\$2.78 E	\$2.83 E	\$2.97 E	\$11.28 E
2020	\$2.59 E	\$2.70 E	\$2.75 E	\$2.90 E	\$10.95 E
2019	\$2.52 A	\$2.64 A	\$2.73 A	\$2.84 A	\$10.75 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 03/13/2020. The reports text is as of 03/16/2020.

Overview

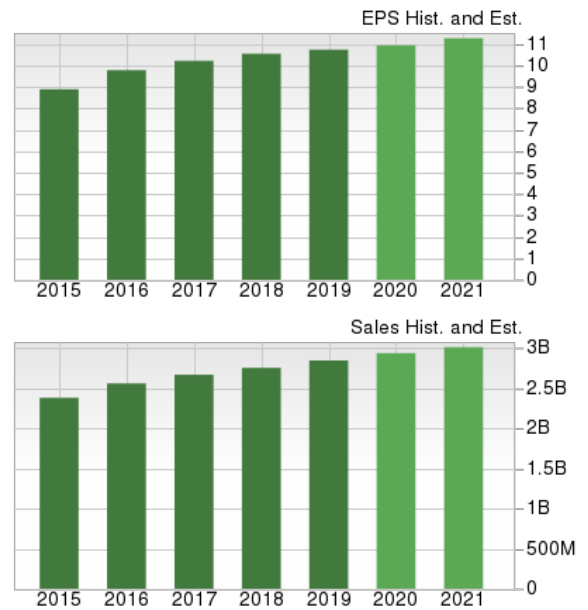
Glendale, CA-based Public Storage is a leading self-storage real estate investment trust in the United States. The company acquires, develops, owns and operates self-storage facilities, generally on a month-to-month basis for business as well as personal use.

As of Dec 31, 2019, Public Storage had interests in 2,483 self-storage facilities (having around 169 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 234 self-storage facilities (comprising 13 million net rentable square feet) in seven countries in Western Europe. These facilities are operating under the "Shurgard" brand name.

In addition, as of Dec 31, 2019, the company had 42% common equity interest in PS Business Parks — a REIT with commercial properties — with 27.6 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.



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, from the beginning of 2013 through Dec 31, 2019, the company acquired 340 facilities, with 23.8 million net rentable square feet from third parties for \$3.1 billion. Additionally, it opened newly-developed and expanded self-storage space for \$1.6 billion, adding 15.1 million net rentable square feet. Following Dec 31, 2019, the company acquired or was under contract to acquire 14 self-storage facilities, spanning 1.1 million net rentable square feet, for \$245.3 million. Finally, as of Dec 31, 2019, the company had several facilities under development (1.3 million net rentable square feet), with an estimated cost of \$209 million, as well as expansion projects (3.1 million net rentable square feet) worth roughly \$410 million. Public Storage estimates to incur the remaining \$477.3 million of development costs related to the 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 fourth-quarter 2019, with 409.7 million of cash and cash equivalents, up from \$361.2 million recorded at the end of 2018. In addition, solid dividend payouts are arguably the biggest enticement for investment in REIT stocks. Given the company's financial position and lower debt-to-equity ratio compared to that of the industry, its 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.

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. The increase in supply has been most prominent in Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, Miami, New York and Portland. Particularly, deliveries are expected to remain elevated this year, 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 Dec 31, 2019, the company had several facilities in development (1.3 million net rentable square feet), with an estimated cost of \$209 million, as well as expansion projects (3.1 million net rentable square feet) worth roughly \$410 million. Public Storage estimates to incur the remaining \$477 million of development costs related to the projects mainly over the next 18 months. Though this is encouraging, the substantial pipeline increases 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 slipped 3% over the past year compared with its industry's decline of 6.5%. However, 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 has witnessed a marginal downward revision over the past week. 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 Q4 FFO & Revenues Miss Estimates, Up Y/Y

Public Storage's fourth-quarter 2019 core FFO per share of \$2.84 improved 1.1% from the year-ago quarter tally of \$2.81. However, the reported figure missed the Zacks Consensus Estimate of \$2.86 by 0.7%.

Quarterly revenues of \$717.5 million climbed 3.62% year on year but missed the Zacks Consensus Estimate of \$720.2 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, property manager payroll 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 the company's expansion efforts in the reported quarter.

Core FFO per share for 2019 came in at \$10.75, up from the prior year's 1.8%. Total revenues for the year came in at \$2.85 billion, marking a 3.4% increase year on year.

Behind the Headlines

Same-store revenues inched up 1.1% year over year to \$598.1 million during the fourth quarter. This upside was primarily driven by a 0.6% increase in realized annual rent per occupied square foot to \$17.66. Moreover, weighted-average square foot occupancy of 93.1% expanded 60 basis points year over year.

However, same-store cost of operations flared up 4.6% year over year to \$135.8 million, primarily reflecting rise in marketing expenses and property manager payroll as well as uptick in property taxes. Consequently, the company's same-store net operating income (NOI) inched up 0.1% to \$462.3 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 December-end quarter, Public Storage acquired 12 self-storage facilities, comprising 0.9 million net rentable square feet of area, for \$121.1 million. These included three facilities in South Carolina, two each in Indiana, North Carolina and Washington and one each in Arizona, Texas and Virginia. Following Dec 31, 2019, the company acquired or was under contract to acquire 14 self-storage facilities, spanning 1.1 million net rentable square feet of space, for \$245.3 million.

Finally, as of Dec 31, 2019, the company had several facilities in development (1.3 million net rentable square feet), with an estimated cost of \$209 million, as well as expansion projects (3.1 million net rentable square feet) worth \$410 million. Public Storage estimates to incur the remaining \$477 million of development costs related to these projects, mainly over the next 18 months.

Liquidity

Public Storage exited fourth-quarter 2019 with \$409.7 million of cash and cash equivalents, up from the \$361.2 million recorded at the end of 2018.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	-0.38%
EPS Surprise	-0.70%
Quarterly EPS	2.84
Annual EPS (TTM)	10.73

Recent News

Dividend Update

On Feb 21, Public Storage announced a regular quarterly dividend of \$2 per common share. The dividend will be paid on Mar 31, to shareholders of record as of Mar 16, 2020.

Valuation

Public Storage's shares have been down 3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Finance sector have declined 6.5% and 17.8%, over the past year, respectively.

The S&P 500 Index is down 5.3% over the past year.

The stock is currently trading at 19.13X forward 12-month FFO, which compares to 15.54X for the Zacks sub-industry, 11.62X for the Zacks sector and 15.72X for the S&P 500 Index.

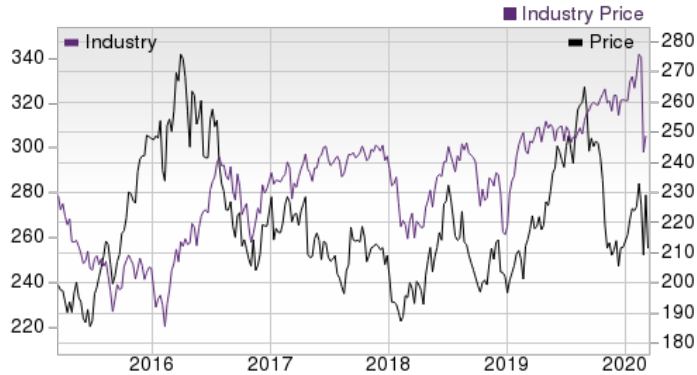
Over the past five years, the stock has traded as high as 27.86X and as low as 17.05X, with a 5-year median of 20.71X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$224 price target reflects 20.28X FFO.

The table below shows summary valuation data for PSA.

Valuation Multiples - PSA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.13	15.54	11.62	15.72
	5-Year High	27.86	18.7	16.21	19.34
	5-Year Low	17.05	14.32	11.62	15.18
	5-Year Median	20.71	16.08	13.97	17.42
P/S F12M	Current	12.5	6.95	5.99	2.9
	5-Year High	18.29	8.14	6.64	3.43
	5-Year Low	11.42	5.91	5.39	2.54
	5-Year Median	13.7	6.88	6.04	3
P/B TTM	Current	7.35	2.34	2.19	3.64
	5-Year High	9.38	2.92	2.89	4.55
	5-Year Low	6.16	2.07	1.83	2.85
	5-Year Median	7.46	2.52	2.52	3.63

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (153 out of 253)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	PSA Neutral	X Industry	S&P 500	CUBE Neutral	EXR Neutral	LSI Neutral
VGM Score	F	-	-	F	D	D
Market Cap	36.93 B	2.07 B	19.05 B	5.50 B	12.52 B	4.76 B
# of Analysts	10	4	13	8	9	7
Dividend Yield	3.79%	5.24%	2.31%	4.65%	3.73%	4.19%
Value Score	F	-	-	F	F	F
Cash/Price	0.01	0.02	0.05	0.01	0.00	0.00
EV/EBITDA	21.18	13.89	11.57	17.87	19.75	15.14
PEG Ratio	4.55	2.86	1.68	5.03	4.15	4.13
Price/Book (P/B)	7.35	1.29	2.56	3.04	4.28	2.23
Price/Cash Flow (P/CF)	18.13	10.68	10.18	16.39	18.31	12.88
P/E (F1)	18.21	11.90	14.94	16.76	19.14	17.01
Price/Sales (P/S)	12.97	4.67	2.02	8.54	9.57	8.29
Earnings Yield	5.18%	8.40%	6.67%	5.98%	5.23%	5.88%
Debt/Equity	0.38	0.88	0.70	1.07	1.73	0.92
Cash Flow (\$/share)	11.66	2.01	7.01	1.73	5.27	7.92
Growth Score	D	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	6.07%	2.75%	10.85%	9.11%	13.34%	4.27%
Proj. EPS Growth (F1/F0)	1.90%	3.17%	5.99%	0.30%	3.42%	6.71%
Curr. Cash Flow Growth	-7.35%	3.51%	6.15%	8.38%	1.87%	18.22%
Hist. Cash Flow Growth (3-5 yrs)	5.16%	12.77%	8.52%	16.69%	17.88%	21.23%
Current Ratio	1.07	1.28	1.24	0.42	0.64	0.30
Debt/Capital	17.32%	46.73%	42.57%	52.45%	63.33%	47.86%
Net Margin	53.41%	13.67%	11.64%	26.26%	34.48%	45.01%
Return on Equity	30.16%	4.47%	16.74%	9.50%	15.82%	12.38%
Sales/Assets	0.25	0.13	0.54	0.16	0.16	0.14
Proj. Sales Growth (F1/F0)	3.21%	4.09%	3.54%	6.37%	4.96%	5.56%
Momentum Score	D	-	-	F	C	D
Daily Price Chg	4.88%	7.43%	8.21%	2.12%	0.31%	6.27%
1 Week Price Chg	9.48%	1.97%	-0.67%	7.90%	9.63%	10.17%
4 Week Price Chg	-7.53%	-25.86%	-22.67%	-12.53%	-14.56%	-11.28%
12 Week Price Chg	0.58%	-20.05%	-20.46%	-9.23%	-7.00%	-4.40%
52 Week Price Chg	-3.31%	-16.50%	-10.79%	-9.78%	-3.47%	5.27%
20 Day Average Volume	1,427,470	789,064	3,061,271	2,352,340	1,270,477	512,489
(F1) EPS Est 1 week change	-0.26%	0.00%	0.00%	-0.69%	-0.17%	-0.10%
(F1) EPS Est 4 week change	-0.36%	-0.27%	-0.32%	-1.72%	-0.09%	0.05%
(F1) EPS Est 12 week change	-0.55%	-0.56%	-0.65%	-2.10%	-0.10%	-0.15%
(Q1) EPS Est Mthly Chg	-0.65%	-0.09%	-0.62%	-1.48%	0.24%	-0.79%

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	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.