

Public Storage (PSA)

\$183.58 (As of 05/19/20)

Price Target (6-12 Months): **\$195.00**

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: D

Growth: D

Momentum: D

Summary

Public Storage's first-quarter 2020 performance reflects the favorable impact of higher revenues for its same-store facilities, resulting from higher realized annual rent per occupied square foot, partly offset by inflated cost of operations from its same-store facilities, comprising elevated marketing costs and property tax expenses. The company is one of the largest owners and operators of storage facilities in the United States and is likely to gain from high brand value, strategic acquisitions, robust presence in key cities, economies of scale and healthy balance sheet. However, the adverse impact on demand from the coronavirus pandemic, lower pricing, high operating expenses, delay in completion of development and redevelopment pipeline and high competition are concerns. Shares have also underperformed the industry over the past year.

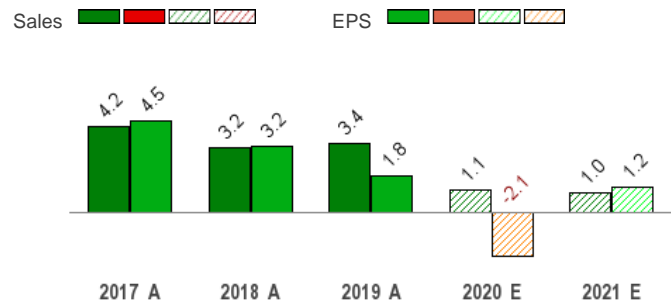
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$266.76 - \$155.37
20 Day Average Volume (sh)	1,070,852
Market Cap	\$32.1 B
YTD Price Change	-13.8%
Beta	0.10
Dividend / Div Yld	\$8.00 / 4.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 31% (80 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	08/04/2020
Earnings ESP	-2.5%
P/E TTM	17.0
P/E F1	17.5
PEG F1	4.4
P/S TTM	11.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	716 E	719 E	742 E	728 E	2,907 E
2020	716 A	722 E	740 E	726 E	2,877 E
2019	689 A	711 A	729 A	718 A	2,847 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.51 E	\$2.57 E	\$2.64 E	\$2.78 E	\$10.65 E
2020	\$2.58 A	\$2.54 E	\$2.64 E	\$2.78 E	\$10.52 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 05/19/2020. The reports text is as of 05/20/2020.

Overview

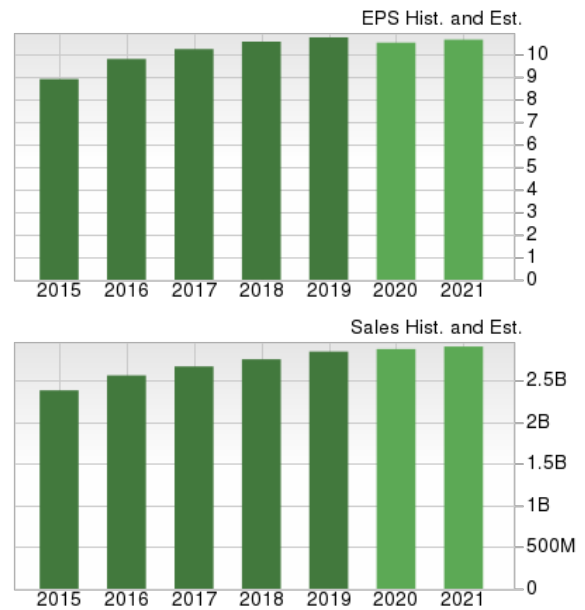
Glendale, CA-based Public Storage is a leading self-storage real estate investment trust in the United States. The company acquires, develops, owns and operates self-storage facilities, generally on a month-to-month basis for business as well as personal use.

As of Mar 31, 2020, Public Storage had interests in 2,492 self-storage facilities (having around 170 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 the same date, the company had 42% common equity interest in PS Business Parks — a REIT with commercial properties — with 27.5 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. As such, apart from benefiting from brand recognition, the company is likely to gain from economies of scale. Moreover, the company remains well poised to benefit from 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.
- ▲ The self-storage asset category is basically need-based and recession-resilient in nature. This asset class has low capital expenditure requirements and generates high operating margins. Additionally, the self-storage industry continues to benefit from favorable demographic changes. Specifically, migration and downsizing trend, and increase in the number of people renting homes have escalated the needs of consumers to rent space at a storage facility to park their possessions.
- ▲ In addition, the company has been capitalizing on growth opportunities. From the beginning of 2013 through Mar 31, 2020, the company acquired 349 facilities, with 24.5 million net rentable square feet from third parties for \$3.3 billion. In addition, it opened the newly-developed and expanded self-storage space for a total cost of \$1.6 billion, adding 15.3 million net rentable square feet. Following Mar 31, 2020, the company acquired or was under contract to acquire six self-storage facilities, spanning 0.4 million net rentable square feet of space, for \$66.8 million. Finally, as of Mar 31, 2020, the company had several facilities in development (1.4 million net rentable square feet), with an estimated cost of \$229 million, as well as expansion projects (2.9 million net rentable square feet) worth \$406 million. Public Storage expects to incur the remaining \$473 million of development costs related to these projects, mainly over the next 18 to 24 months. While the company expects a decline in its scale of acquisitions in the short term due to economic uncertainty resulting from the pandemic, the company seems well poised to capitalize on market dislocations.
- ▲ Public Storage has one of the strongest balance sheets in the sector, with adequate liquidity to withstand current challenging times and capitalize on expansion opportunities through acquisitions and developments. The company exited first-quarter 2020 with \$718.4 million of cash and cash equivalents, up from \$409.7 million recorded at the end of 2019. It also has 484.1 million of available borrowing capacity on its revolving line of credit and has low leverage and high coverage. The company's debt/EBITDA is roughly 1.0x and fixed coverage ratio stands at 8.0x. As such, it seems well poised to take advantage of potential opportunity. 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:

- ▼ Amid the coronavirus pandemic, there is a substantial reduction in demand for self-storage space. This is resulting in decline in move-in volumes, despite lower move-in rental rates. The company has also temporarily curtailed its existing tenant rate increase program. Furthermore, stress on customers' financial capacity will likely result in rent collection issues. As such, the company expects reduction in year-over-year same-store rental income and net operating income the rest of the year.
- ▼ Further, with stay at home orders customers' activity, in particular move-ins, has been adversely affected. Also, there have been increased absentee rates for on-site property managers dealing with health, childcare and other issues. Amid these, the company has opted for a temporary \$3.00 hourly wage increase and enhancements of paid time off benefits to effectively all of its property managers apart from increasing the use of masks, gloves, and social distancing practices by property managers. Such moves are expected to result in increase in operating expenses. Also, advertising expenditure is likely to remain high for maintaining a high occupancy level.
- ▼ 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, Minneapolis, New York, and Portland. This 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 Mar 31, 2020, the company had several facilities in development (1.4 million net rentable square feet), with an estimated cost of \$229 million, as well as expansion projects (2.9 million net rentable square feet) worth \$406 million. Public Storage expects to incur the remaining \$473 million of development costs related to these projects, mainly over the next 18 to 24 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. The coronavirus pandemic will likely result in delay of the estimated timing of completion of the company's current pipeline of development and expansion projects. This is because a number of jurisdictions have shut down or deferred entitlement activities, while "stay at home" orders might delay construction activities. Apart from these, the timeframe for a newly-developed facility to achieve stabilized occupancies and cash flows will likely extend amid the pandemic.
- ▼ Shares of Public Storage have declined 20.5% over the past year compared with its industry's decline of 12.7%. Further, 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 1% downward revision over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Adverse impact on demand due to coronavirus pandemic, lower pricing, high operating expenses, delay in completion of development and redevelopment pipeline and high competition remain key concerns.

Last Earnings Report

Public Storage Q1 FFO Meets, Revenues Beat Estimates

Public Storage's first-quarter 2020 core FFO per share of \$2.58 improved 2.0% from \$2.53 reported a year ago. The reported figure met the Zacks Consensus Estimate.

Quarterly revenues of \$716.1 million increased 3.9% year on year and surpassed the Zacks Consensus Estimate of \$711.7 million.

The company's quarterly performance reflects the favorable impact of higher revenues for its same-store facilities, resulting from higher realized annual rent per occupied square foot. Nevertheless, this is offset by increased cost of operations from its same-store facilities, comprising elevated marketing costs and property tax expenses.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	0.62%
EPS Surprise	0.00%
Quarterly EPS	2.58
Annual EPS (TTM)	10.79

Behind the Headlines

Same-store revenues inched up 1.2% year over year to \$609.5 million during the first quarter. This upside was primarily driven by a 0.8% increase in realized annual rent per occupied square foot to \$17.43. Moreover, weighted-average square foot occupancy of 93.1% expanded 60 basis points year over year.

However, same-store cost of operations increased 4% year over year to \$180.3 million, primarily reflecting a rise in marketing expenses and property taxes. Consequently, the company's same-store net operating income (NOI) inched up 0.1% to \$429.3 million.

Nonetheless, the company's NOI from non-same store facilities grew on the back of the facilities acquired in 2019 and 2020, and the fill-up of the recently developed and expanded facilities.

Portfolio Activity

During the March quarter, Public Storage acquired nine self-storage facilities, comprising 0.7 million net rentable square feet of area, for \$186.2 million. These included two each in California, New York and Tennessee and one each in Indiana, Massachusetts and Nebraska. Following Mar 31, 2020, the company acquired or was under contract to acquire six self-storage facilities, spanning 0.4 million net rentable square feet of space, for \$66.8 million.

Finally, as of Mar 31, 2020, the company had several facilities in development (1.4 million net rentable square feet), with an estimated cost of \$229 million, as well as expansion projects (2.9 million net rentable square feet) worth \$406 million. Public Storage expects to incur the remaining \$473 million of development costs related to these projects, mainly over the next 18 to 24 months.

Liquidity

Public Storage exited first-quarter 2020 with \$718.4 million of cash and cash equivalents, up from \$409.7 million recorded at the end of 2019.

In January, the company completed a public offering of 500 million euros (\$552 million) of Euro denominated senior unsecured notes, bearing interest at a fixed rate of 0.875% and slated to mature on Jan 24, 2032.

Outlook

Public Storage expects year-over-year same-store rental income and net operating income to take a hit for the rest of the year. This is due to the fact that the company has temporarily curtailed its existing tenant rate increase program and witnessed a fall in demand for its self-storage facilities.

The company also apprised of its acquisition plans for the rest of the year. It expects a decline in its scale of acquisitions for the year.

The coronavirus pandemic has also resulted in the company expecting higher operating expenses for the year.

Recent News

Dividend Update

On Apr 21, the company announced a quarterly dividend of \$2 per common share. The dividend will be paid on Jun 30, to shareholders of record as of Jun 15, 2020.

Valuation

Public Storage's shares have been down 20.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Finance sector have declined 12.7% and 19.6%, over the past year, respectively.

The S&P 500 Index is up 3% over the past year.

The stock is currently trading at 17.36X forward 12-month FFO, which compares to 16.72X for the Zacks sub-industry, 15.13X for the Zacks sector and 21.34X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 27.86X and as low as 14.57X, with a 5-year median of 20.54X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$195 price target reflects 18.44X 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	17.36	16.72	15.13	21.34
	5-Year High	27.86	18.10	16.18	21.34
	5-Year Low	14.57	14.32	11.58	15.23
	5-Year Median	20.54	16.08	13.94	17.49
P/S F12M	Current	11.09	7.31	5.81	3.30
	5-Year High	18.29	8.14	6.70	3.44
	5-Year Low	9.49	5.91	4.99	2.53
	5-Year Median	13.59	6.88	6.05	3.01
P/B TTM	Current	6.45	2.09	2.31	3.99
	5-Year High	9.38	3.01	2.90	4.56
	5-Year Low	5.59	1.80	1.71	2.83
	5-Year Median	7.46	2.51	2.53	3.65

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Top 31% (80 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
CubeSmart (CUBE)	Neutral	3
Extra Space Storage Inc (EXR)	Neutral	3
Innovative Industrial Properties, Inc. (IIPR)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
Gladstone Land Corporation (LAND)	Neutral	2
Life Storage, Inc. (LSI)	Neutral	3
National Storage Affiliates Trust (NSA)	Neutral	4
Safehold Inc. (SAFE)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	PSA	X Industry	S&P 500	CUBE	EXR	LSI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	D	C
Market Cap	32.09 B	1.78 B	19.91 B	4.87 B	11.29 B	4.14 B
# of Analysts	10	4	14	8	8	7
Dividend Yield	4.36%	4.79%	2.14%	5.25%	4.12%	4.85%
Value Score	D	-	-	D	D	D
Cash/Price	0.02	0.08	0.07	0.01	0.01	0.01
EV/EBITDA	18.88	13.32	12.09	16.39	18.43	13.99
PEG Ratio	4.39	3.45	2.68	9.81	9.97	3.87
Price/Book (P/B)	6.45	1.12	2.75	2.73	4.09	1.93
Price/Cash Flow (P/CF)	15.75	9.42	10.68	14.51	16.58	11.14
P/E (F1)	17.56	13.21	19.96	15.50	18.05	15.35
Price/Sales (P/S)	11.17	4.15	2.01	7.43	8.49	7.08
Earnings Yield	5.73%	7.33%	4.83%	6.44%	5.53%	6.51%
Debt/Equity	0.49	0.92	0.76	1.08	1.85	0.97
Cash Flow (\$/share)	11.66	2.03	7.01	1.73	5.27	7.92
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	5.54%	2.02%	10.87%	8.10%	12.19%	3.83%
Proj. EPS Growth (F1/F0)	-2.18%	-2.83%	-10.48%	-3.99%	-0.74%	2.36%
Curr. Cash Flow Growth	-7.35%	3.36%	5.51%	8.38%	1.87%	18.22%
Hist. Cash Flow Growth (3-5 yrs)	5.16%	12.74%	8.55%	16.69%	17.88%	21.23%
Current Ratio	2.01	1.74	1.28	0.28	0.84	0.41
Debt/Capital	21.26%	48.38%	44.46%	52.58%	64.88%	49.16%
Net Margin	52.93%	12.85%	10.59%	26.18%	34.99%	44.55%
Return on Equity	30.33%	3.94%	16.27%	9.53%	16.27%	12.33%
Sales/Assets	0.25	0.13	0.55	0.16	0.16	0.14
Proj. Sales Growth (F1/F0)	1.07%	0.00%	-2.49%	3.16%	1.44%	3.13%
Momentum Score	D	-	-	D	D	D
Daily Price Chg	0.12%	-0.78%	-1.38%	0.84%	0.37%	-0.08%
1 Week Price Chg	-7.55%	-10.78%	-4.56%	-12.22%	-10.78%	-9.24%
4 Week Price Chg	-3.83%	2.13%	6.08%	-0.51%	-1.54%	-0.51%
12 Week Price Chg	-16.89%	-29.61%	-13.96%	-20.34%	-18.27%	-22.59%
52 Week Price Chg	-20.50%	-26.16%	-7.85%	-24.38%	-17.90%	-8.46%
20 Day Average Volume	1,070,852	806,260	2,586,392	1,442,260	1,027,453	365,601
(F1) EPS Est 1 week change	-0.22%	0.00%	0.00%	-0.92%	-0.26%	-0.59%
(F1) EPS Est 4 week change	-1.19%	-1.96%	-4.62%	-0.84%	-0.57%	-0.96%
(F1) EPS Est 12 week change	-4.35%	-5.38%	-16.58%	-5.32%	-3.96%	-4.03%
(Q1) EPS Est Mthly Chg	-2.16%	-2.78%	-10.10%	-1.49%	-2.16%	-0.75%

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	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.

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