PROLOGIS (PLD) HOLDING ANALYSIS

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COMPANY OVERVIEW

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| AS OF CLOSE ON 01/21/2022 | PROLOGIS  (PLD) | EASTGROUP  (EGP) | DUKE  (DRE) |
| PRICE | $155.43 | $199.95 | $57.63 |
| Dividend Yield | 1.4968 | 1.9624 | 2.1308 |
| EPS | 1.67 | $3.07 | 2.43 |
| PE | 38.734 | 67.595 | 72 |
| MARKET CAP (m) | 114,914 | 8,135 | 22,009 |

Prologis, Inc is a top-tier logistics real estate trust (REIT) company, the company is the biggest giant in this industry. They acquire, maintain, and develop a portfolio of high-quality logistics real estate in the world. The company is built on two fundamental principles: Industrial REITs (85.65%) and Real Estate Service (14.35%). They are currently owning (both directly and indirectly via co-investment ventures) 4735 logistics buildings, roughly 1 billion square feet, over 19 countries. They acquire and customize high-quality buildings (Speculative Development, Build-to-Suit, and Sustainable Designs) in the most desirable locations globally. Prologis Essentials is a resource branch of the company that is designed to nurture small to medium businesses to innovate, grow and thrive by helping them to move in, set up offices or solve problems being faced by their customers. WELL Building Standard is a unique design of Prologis that enhances workers’ health and well-being by blending both inside and outside into one work environment, in which they focus on air, water, nourishment, sunlight, fitness and comfort.

INDUSTRY TRENDS AND RISKS

Aggressive acquisitions have been a big trend of industrial REITs as they were trying to expand their portfolios, they acquire lands that already have established buildings and remodel them that took only a few weeks to one or two months rather than waiting for months to a year to build one from the ground up. This way they can pay off the cost on their book much faster than before. Nonetheless, this acquisition market is limited. A new uptrend is picking up in the construction field even though the material and labor costs are expensive right now due to inflation. Construction has been picking up some speed due to portfolios accelerated growth and limited acquisition market, specifically in infill markets where Prologis seeks to expand further and rent growth is the strongest.

One small trend going on in this industrial REIT sector is that several firms and a growing number of institutional investors are acquiring and developing logistics real estate on speculation hoping to secure tenants after completion. Together with the fact that some department stores are being converted into warehouses, they will propose serious threats to the industry. They will undoubtedly flood the market with extra supply, vacancy rate will increase, and rents will have to grow slower or even worse, decrease.

Prologis is an extremely cyclical equity, the company is profitable when the economy is booming, but its profitability will go down when there is a recession in the overall economy. Its revenue is mainly focused on the retail market. The more profitable, the more products the retail industry sells, the higher the firm’s revenue will be. Since the recovery of the economy a year ago, the industrial real estate sector is seeing persistently high demand for industrial space that is caused by the extra spending from government stimulus and the supply chain bottlenecks that can prolong until the end of 2022. Supply chain issues make companies shift inventory strategy from a “just-in-time” to a “just-in-case” strategy. This shift can drive inventories up by more than 5 to 10%, moving into a “safety stock” condition. However, the biggest reason that causes a significant spike in demand for large storage space is due to the growth of e-commerce and retail sales overall. E-commerce warehouses need approximately three times the size of the normal brick-and-mortar storage space. Because of the lack in current supply, vacancy rate is at its historically low of 4.5% and rents are having their strongest growth, forecasted to be an all-time high of 10.3%, especially in the coastal areas, leading to an increase in the company FFO.

VALUE DRIVERS AND FINANCIALS

Prologis, Inc depends on two revenue streams: rental revenue and strategic capital revenue. Rental revenue is provided by leasing wholly or partially owned logistics properties to a diverse base of tenants under long term contracts, managing modern and high-quality warehouse facilities. Strategic capital revenue is from raising funds and managing several co-investment ventures including private real estate investment funds and publicly traded REITs. These funds generate management fees and promote incomes.

There are a few prospects keeping Prologis, Inc apart from any other peers. Firstly, it is their enormous property portfolio around 1 billion square feet. Development starts and stabilizations are expected to increase and remain elevated throughout 2022. Combining that with further increase in rents, necessary changes to the supply chain and the growth of e-commerce, the company’s FFO is receiving a big tailwind for the upcoming year. Even though rents are high now, the company only loses 5% of their total deals because of the sky-high rents. Rents become a very minor discussion when there are people fighting for accessibility and availability of limited space. That also leads to one assumption that Prologis has not been pushing rents enough which could possibly result in an increase in revenue. Second advantage is their co-investment ventures. These funds are what separate the company from their competitions. Improving cash flow with management and promotion fees, together with managing risks by global diversification really set them apart from other industrial REITs that only own properties in the US market. The strength of their book is also amazing proven by the A-rated credit in most credit rating agencies which only a few firms can achieve in this industry. Lastly, they set themselves apart by using green energy and cutting-edge technologies. The firm provides energy solutions that can reduce costs, increase sustainability, and generate more revenue for their tenants. Combining green energy solutions with innovative and emerging technologies like warehouse robots, AI fork trucks and applying IoTs in many warehouses to increase the dependability and efficiency of the workshop and reduce the labor cost at the same time leading to the increase in cash flow for tenants.

Prologis, Inc has been seeing strong growth in Core FFO and same-store NOI, 14% year-over-year in rentals and 6.1% for the year respectively. They have successfully raised 4 billion dollars through strategic capital, a record number after drawing down 1.9 billion dollars for this year’s acquisitions. The company is expecting a similar trend throughout the year of 2022 and into 2023 as significant increase in rents and valuations. They project the core FFO to be growing at 22% year-over-year including promoting incomes and the strategic capital revenue will reach a new milestone of 1 billion dollars. Essentials business is also doing very well. Its revenue is expected to reach 300 million dollars this year, the goal which was set out back in 2018. Because of the diverse streams of income and a significant increase in demand for industrial storage space, Prologis is the leader in this industry. Their top customers include Amazon, Geodis, FedEx, DHL, Home Depot, Walmart, BMW, Pepsi, UPS, and Staples. Because of how Prologis focuses only in one specific market, Duke Realty Corporation, EastGroup Properties and Terreno Realty Corporation are their main competitors. Nonetheless, none of the competitors is the big worry for Prologis since they have the most market share in this most desirable sector. Their brand name, track records and multiple ways of generating revenues, managing risks help them to get ahead of others and dominate the industry.

RECOMMENDATION

Due to reasons mentioned above, I believe we should **HOLD PLD** until any further major changes in the UIndy Student Fund portfolio. They show how they are the innovative leader in one of the most profitable market areas, they acquire a big market share in an industry where demand is increasing significantly, limited supply and pricing is not a big problem. Their book is strong with assets that appreciate over the year, generate long-lived revenues and a diverse portfolio of properties around the globe. ***We should hold Prologis, Inc stock these reasons.***

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