Prologis, Inc. (NYSE: PLD)
Sector: REITS (Industrial)

Target Price	Current Price	52 Week High	52 Week Low	P/FFO	Market Cap.	Dividend Yield	Beta
$75	$61	$67.53	$49.95	19.85	$32.10B	3.19%	1

Business Description

Prologis, Inc. (PLD), headquartered in San Francisco, is the 6th largest REIT in terms of assets under management, and the largest industrial REIT. A leader in logistics real estate, Prologis owns and manages warehouses and distribution facilities in the US., Europe, and Asia. Prologis is divided into two operating segments: Real Estate Operations (90% of revenues), and Strategic Capital (10% of revenues). The assets managed include properties entirely owned by the company itself and properties owned by its co-investment ventures. Prologis has $79 Bil in assets under management, which includes over 3,200 buildings, or about 684M square feet in 19 countries.

Investment Thesis

Prologis is poised to maintain its leading position in the industrial REIT because as e-commerce grows faster than traditional retail, retailers look for conveniently-located warehouses and shipping centers near their customers in order to save on transportation costs and to deliver orders quickly. Knowing this, Prologis has been investing strategically in high barrier-to-entry markets near high density metropolitan areas, and near major airports and highways. This will result in continued low vacancy rates, which are currently in the ~3% level. This will in turn allow the company to maintain its high pricing power and ability to continue increasing rent. Besides having well located properties, Prologis also has the strongest tenant list in the industry with well-established firms such as Amazon, Walmart, and Home Depot in its top-five customer list.

Industry Trends

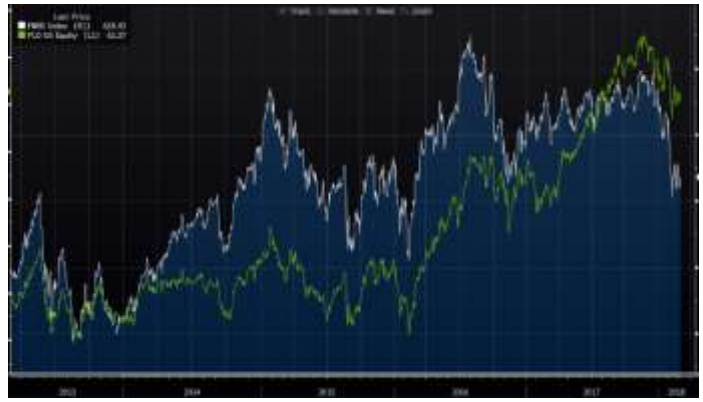
In recent years, especially in 2017, stocks in the REIT sector have underperformed the broader market. However, during this time the industrial REIT industry has seen rising rents and lowering vacancy rates, which is expected to continue. The industry is expected to grow at ~2.6% per year into 2022, as the real estate market improves and corporate profits improve. The industrial REIT market is cyclical, but the e-commerce secular trend is expected to ease the contraction phase of such cycle at least within the next decade.

Valuation Assumptions	**Key Financials:**
WACC: 6.3%	2017 Revenue: $2.6B
Terminal Growth Rate: 2%	2017 EBITDA: $1.6B
Projected Revenue Growth Rate: 5%	2017 NOI: $1.5B

Corporate Social Responsibility

Prologis strives for excellence in environmental stewardship and social responsibility. This has been manifested in the company's efforts to operate LEED-certified facilities. As of 2017, 82% of the company's total operating portfolio had efficient lighting. Also, in 2017 Prologis donated $2M in grants and donations in support of local causes and nonprofits.

5-Year Stock Performance vs. FNER (NAREIT Index)



March 2013-March2018

Competitive Environment

The REIT industry has a moderate competition level, as well as low market share concentration. In 2017 the top four REITs accounted for about 1/5 of total industry revenue. REITs compete with other REITs and with alternative investment firms with similar risk profiles such as PE firms. Competition in the REIT industry is mainly based on investment performance. In recent years many REITs have been increasing dividends as the operating environment improves during the post-2008 recession economic recovery. Besides possessing attractive dividend yields compared to regular stocks, REITs benefit from their status of *pass-through entities*, which makes them exempt from taxes at the corporate level, making them more tax-effective than other alternatives.

Competitive Advantages

Relative to its major competitors, Prologis has the largest global presence as well as the largest portfolio of quality facilities in the best locations to capitalize on the growing demand of online retailers. This competitive advantage is accompanied by Prologis' solid tenant list, as well as its own research arm (Prologis Research), which has and will continue allowing management to react proactively to new trends and changes in the market.

Risks

Rising interest rates could make investors shift to other types of investments with higher yields, such as bonds. And in general, when interest rates are high, REITs tend to underperform. However, this risk could be mitigated by the favorable e-commerce secular trend, which especially favors industrial REITs such as Prologis. The increasing demand from online retailers for quality real estate could to some extent shield Prologis from any negative impact to profitability caused by high interest rates.

Report prepared by
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Sources: Bloomberg, CFRA, ValueLine, Morningstar, Prologis 10-k, Investors Relations, IBISWorld