



# Equity LifeStyle Properties, Inc. (ELS)

Updated August 3<sup>rd</sup>, 2024 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	5.1%	<b>Market Cap:</b>	\$14.2 B
<b>Fair Value Price:</b>	\$61	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	09/27/24
<b>% Fair Value:</b>	119%	<b>5 Year Valuation Multiple Estimate:</b>	-3.4%	<b>Dividend Payment Date:</b>	10/11/24
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$81	<b>Years Of Dividend Growth:</b>	19
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Hold

## Overview & Current Events

Equity LifeStyle Properties, Inc is a real estate investment trust which engages in the ownership and operation of lifestyle-oriented properties consisting primarily of manufactured home and recreational vehicle communities. The Trust was founded by James M. Hankins in December 1992 and is headquartered in Chicago, IL. Equity LifeStyle Properties operates through the following segments: Property Operations; and Home Sales and Rentals Operations. The Property Operations segment owns and operates land lease properties. The Home Sales and Rentals Operations segment purchases, sells, and leases homes at the properties. Today, Equity LifeStyle Properties, Inc. owns or has a controlling interest in more than 400 communities and resorts in 33 states and British Columbia, with more than 165,000 sites. The Trust employs 4,000 employees across the country. Equity LifeStyle Properties, Inc trades on the New York Stock Exchange under the ticker ELS. The Trust has a strong dividend growth history. The company has been increasing its dividend for nineteen consecutive years and has a current market capitalization of \$14.2 billion.

On July 22<sup>nd</sup>, 2024, Equity LifeStyle Properties reported second-quarter earnings for Fiscal Year (FY)2024.

The company net income per common share for the quarter increased to \$0.42, a 24.3% rise from \$0.34 in 2023. Funds from Operations (FFO) per common share and OP unit grew to \$0.69, up 13.5%, while Normalized FFO reached \$0.66, a 2.9% increase. For the six-month period, net income per common share rose by 29.4% to \$1.01, and FFO per common share and OP unit increased by 16.6% to \$1.55. Normalized FFO saw a 5.9% rise to \$1.44.

Operational highlights include a 4.6% increase in core property operating revenues and a 5.5% rise in core income from property operations, excluding property management, for the quarter. The manufactured housing (MH) segment reported a 6.2% increase in base rental income, primarily due to rate hikes and occupancy gains. Additionally, 255 new homes were sold at an average price of approximately \$89,000. The recreational vehicle (RV) and marina segment saw a 2.0% growth in base rental income for the quarter and a 4.0% increase for the six-month period.

Core property operating expenses, excluding property management, rose by 3.4% for the quarter and 3.7% for the six months. The company also extended the maturity date of its \$500 million unsecured line of credit to July 2028. For the third quarter of 2024, net income per common share is expected to be between \$0.42 and \$0.48, and for the full year, between \$1.89 and \$1.99. FFO and Normalized FFO per common share and OP unit are anticipated to be within \$0.69 to \$0.75 for the third quarter and \$2.96 to \$3.06 and \$2.86 to \$2.96, respectively, for the full year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$1.35	\$1.52	\$1.66	\$1.80	\$1.94	\$2.09	\$2.17	\$2.53	\$2.72	\$2.75	<b>\$2.90</b>	<b>\$3.88</b>
<b>DPS</b>	\$0.65	\$0.75	\$0.85	\$0.98	\$1.10	\$1.07	\$1.37	\$1.45	\$1.64	\$1.79	<b>\$1.91</b>	<b>\$2.56</b>
<b>Shares<sup>1</sup></b>	183.0	184.0	185.0	187.0	190.0	192.0	193.0	192.6	195.3	195.0	<b>195.0</b>	<b>195.0</b>

The continuation of acquiring properties and increasing core income from property operations will help drive FFO to grow for years to come. Over the past ten years, ELS has had a CAGR of 8.2% and a five-year CAGR of 6.8%. We think this

<sup>1</sup> Share count is in millions.

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will start to slow down as the Trust matures. Thus, we believe a 6.0% FFO growth rate is rational for the next five years. This will give us an FFO of \$3.88 per share in 2029. We also expect the Trust to continue its dividend growth history and grow its dividend at a 6.0% rate or higher as it did with the most recent increase.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/FFO</b>	19.2	21.9	21.8	24.7	25.1	33.7	29.2	34.9	23.8	25.7	<b>25.0</b>	<b>21.0</b>
<b>Avg. Yld.</b>	2.5%	2.3%	2.4%	2.2%	2.3%	1.5%	2.2%	1.7%	2.5%	2.5%	<b>2.6%</b>	<b>3.1%</b>

Currently, ELS is overvalued to our fair price of \$61. The Trust has a P/FFO of 25.0 based on FY2024 earnings of \$2.90 per share. We think a sensible P/FFO ratio is 21.0. The current valuation provides a headwind of (3.4)% for the next five years. The present dividend yield is also a good indicator of the Trust's current valuation. The dividend yield of 2.6% is slightly higher than its ten-year average of 2.2%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

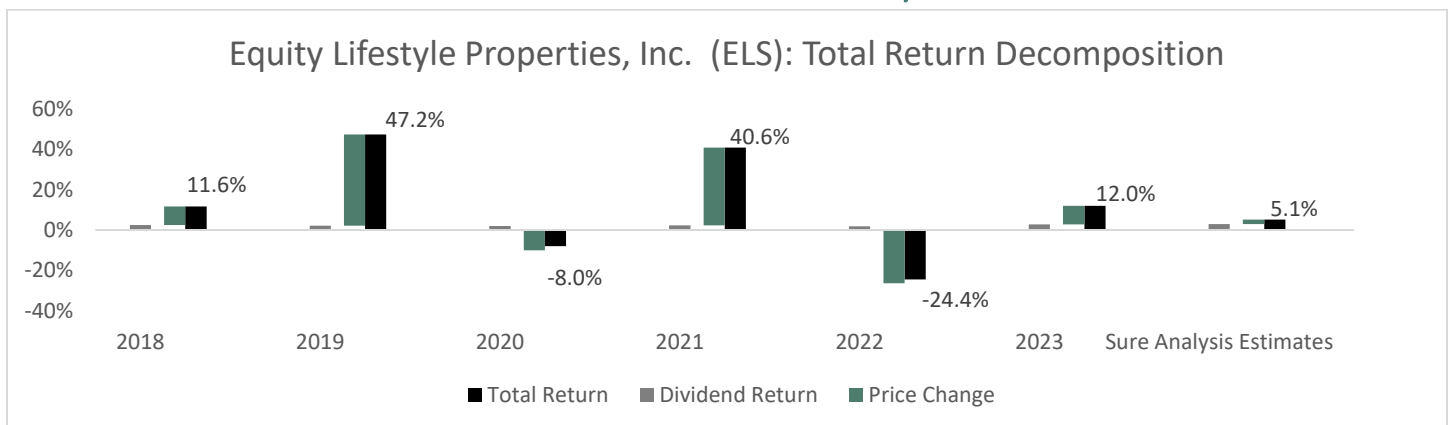
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	48.1%	49.3%	51.2%	54.4%	56.7%	51.2%	63.1%	57.3%	60.3%	65.1%	<b>66%</b>	<b>66%</b>

ELS's competitive advantage is that Equity LifeStyle has a national presence and excellent reputation within the industry, which allows the Trust to pursue opportunities to increase customer service and deliver quality earnings for shareholders. During the Great Recession in 2007-2010, the Trust performed very well. In 2008, FFO increased 5% from \$0.76 per share 2007 to \$0.80 per share in 2008. In 2009, FFO jumped by 12% to \$0.99 per share. During the COVID-19 pandemic, the Trust saw the same results. In 2020, FFO grew 4% to \$2.17 per share. Thus, ELS is a resilient, high-quality Trust. ELS does not have an S&P Credit Rating. However, the Trust's balance sheet is satisfactory, with a current debt to equity ratio of 2.4 and a long-term debt cap ratio of 70.8%. The dividend is very well covered, with only 66% of FFO going toward its dividend payment. Since 2005, ELS has not had a dividend payout ratio higher than 65%.

## Final Thoughts & Recommendation

Equity LifeStyle Properties is a fantastic trust to own in a portfolio. The Trust has a solid business model that allows it to rapidly expand its affordable housing segment. The healthy balance sheet will help drive high acquisition volumes. The current risk is that the Trust is overvalued to our fair price estimate. We expect a five-year annual rate of return of 5.1%. This is primarily because of the higher valuation. Thus, ELS is considered a hold at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	761	807	856	912	968	1021	1080	1260	1,431	1,472
<b>Gross Profit</b>	437	464	491	520	556	591	615	699	701	740
<b>Gross Margin</b>	57.4%	57.4%	57.3%	57.0%	57.4%	57.9%	57.0%	55.5%	49.0%	50.3%
<b>SG&amp;A Exp.</b>	85	90	93	99	108	112	119	136	96	96
<b>D&amp;A Exp.</b>	116	117	122	125	139	154	158			
<b>Operating Profit</b>	234	255	277	298	311	327	341	375	406	441
<b>Operating Margin</b>	30.8%	31.5%	32.4%	32.6%	32.1%	32.0%	31.6%	29.8%	28.4%	30.0%
<b>Net Profit</b>	128	139	173	198	213	279	228	262	285	314
<b>Net Margin</b>	16.8%	17.3%	20.2%	21.7%	22.0%	27.4%	21.1%	20.8%	19.9%	21.3%
<b>Free Cash Flow</b>	222	259	233	252	232	186	249			

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	3,446	3,400	3,479	3,610	3,926	4,151	4,419	5,308	5,493	5,614
<b>Cash &amp; Equivalents</b>	74	80	56	36	69	29	24	123	22	30
<b>Total Liabilities</b>	2,467	2,408	2,397	2,510	2,732	2,829	3,114	3,822	3,975	4,115
<b>Long-Term Debt</b>	2,212	2,126	2,091	2,200	2,348	2,408	2,667	3,274	3,388	3,519
<b>Shareholder's Equity</b>	776	789	872	1,032	1,122	1,250	1,234	1,415	1,445	1,429
<b>LTD/E Ratio</b>	2.43	2.30	2.07	2.13	2.09	1.93	2.16	2.31	2.34	2.46

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	3.7%	4.1%	5.0%	5.6%	5.6%	6.9%	5.3%	5.4%	5.3%	5.7%
<b>Return on Equity</b>	16.7%	17.8%	20.9%	20.8%	19.7%	23.5%	18.4%	19.8%	19.9%	21.9%
<b>ROIC</b>	4.0%	4.4%	5.5%	6.1%	6.2%	7.7%	5.9%	6.0%	5.9%	6.3%
<b>Shares Out.</b>	183.0	184.0	185.0	187.0	190.0	192.0	193.0	192.6	195.3	195.4
<b>Revenue/Share</b>	4.16	4.39	4.63	4.88	5.09	5.32	5.61	6.89	7.33	7.53
<b>FCF/Share</b>	1.21	1.41	1.26	1.35	1.22	0.97	1.30			

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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