



Rexford Industrial Realty (REXR)

Updated October 22nd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	14.1%	Market Cap:	\$10.5 B
Fair Value Price:	\$47	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/31/2024
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	1/15/2025
Dividend Yield:	3.7%	5 Year Price Target	\$76	Years Of Dividend Growth:	10
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Rexford Industrial Realty (REXR) is a real estate investment trust (REIT) that operates and redevelops industrial properties throughout infill Southern California. The REIT was founded in 2001, became public in 2014 and currently has 424 properties with a total rentable area of 50 million square feet. It has a market capitalization of \$10.5 billion.

Rexford Industrial enjoys strong business tailwinds thanks to its exclusive focus on infill Southern California, which is the fourth largest industrial market in the world and the largest industrial market in the U.S. This region has a GDP of \$1.8 trillion, the 11th largest in the world, and is characterized by an extremely low vacancy rate of less than 3.0%, markedly high demand and low supply of new properties. As a result, it offers strong pricing power to the REIT.

In mid-October, Rexford Industrial reported (10/16/24) financial results for the third quarter of fiscal 2024. Same-property net operating income grew 2.6% over the prior year's quarter, primarily thanks to strong growth in rental rates. Core funds from operations (FFO) per share grew 5%, from \$0.56 to \$0.59, in line with the analysts' consensus. Rexford Industrial has not missed the analysts' FFO estimates for 23 consecutive quarters.

In contrast to most REITs, which are suffering from high interest expense amid high interest rates, Rexford Industrial has low interest expense thanks to its rock-solid balance sheet. It raised its dividend by 10% this year and marginally raised its guidance for annual FFO per share from \$2.32-\$2.34 to \$2.33-\$2.35. Given the solid business momentum and the record of beating estimates, we still view the guidance of the REIT as conservative and keep our forecast intact at \$2.36.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$0.89	\$0.82	\$0.88	\$0.96	\$1.12	\$1.23	\$1.32	\$1.64	\$1.96	\$2.19	\$2.36	\$3.80
DPS	\$0.48	\$0.51	\$0.54	\$0.58	\$0.64	\$0.74	\$0.86	\$0.96	\$1.26	\$1.52	\$1.67	\$2.57
Shares¹	32.0	54.0	63.0	71.6	87.3	106.8	121.2	140.1	171.0	203.1	220.0	350.0

Rexford Industrial greatly benefits from operating in infill Southern California, the largest industrial market in the U.S, which is characterized by strong demand and low supply of new properties and has one of the lowest vacancy rates in the country (2.8% vs. an average of 5.5%). The REIT has grown its FFO per share by 10.5% per year on average over the last decade and hence it is one of the highest-growth REITs. It has grown its FFO at a fast pace by acquiring new properties and redeveloping them to enhance their value. Rexford Industrial has grown with impressive consistency, even during the pandemic, thus confirming the strength of its business model. As there are no signs of fatigue on the horizon, we expect Rexford Industrial to grow its FFO per share at a 10.0% average annual rate over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/FFO	16.1	18.4	23.0	28.0	27.2	32.8	34.1	35.9	32.7	24.7	19.1	20.0
Avg. Yld.	3.4%	3.4%	2.7%	2.2%	2.1%	1.8%	1.9%	1.6%	2.0%	2.8%	3.7%	3.4%

¹ In millions.

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Rexford Industrial has traded at an average P/FFO ratio of 27.3 over the last decade, one of the richest valuation levels in the REIT sector, thanks to its impressive growth record and prospects. However, high interest rates result in high interest expense and also reduce the present value of future FFO, thus compressing the valuation levels of REITs. Given depressed interest rates until 2021 and our preference to have a margin of safety, we assume a fair P/FFO ratio of 20.0 for the REIT. The stock is currently trading at a P/FFO ratio of 19.1, which is lower than our assumed fair valuation level. If the stock trades at its fair valuation level in five years, it will enjoy a 1.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54%	62%	61%	60%	57%	60%	65%	59%	64%	69%	71%	68%

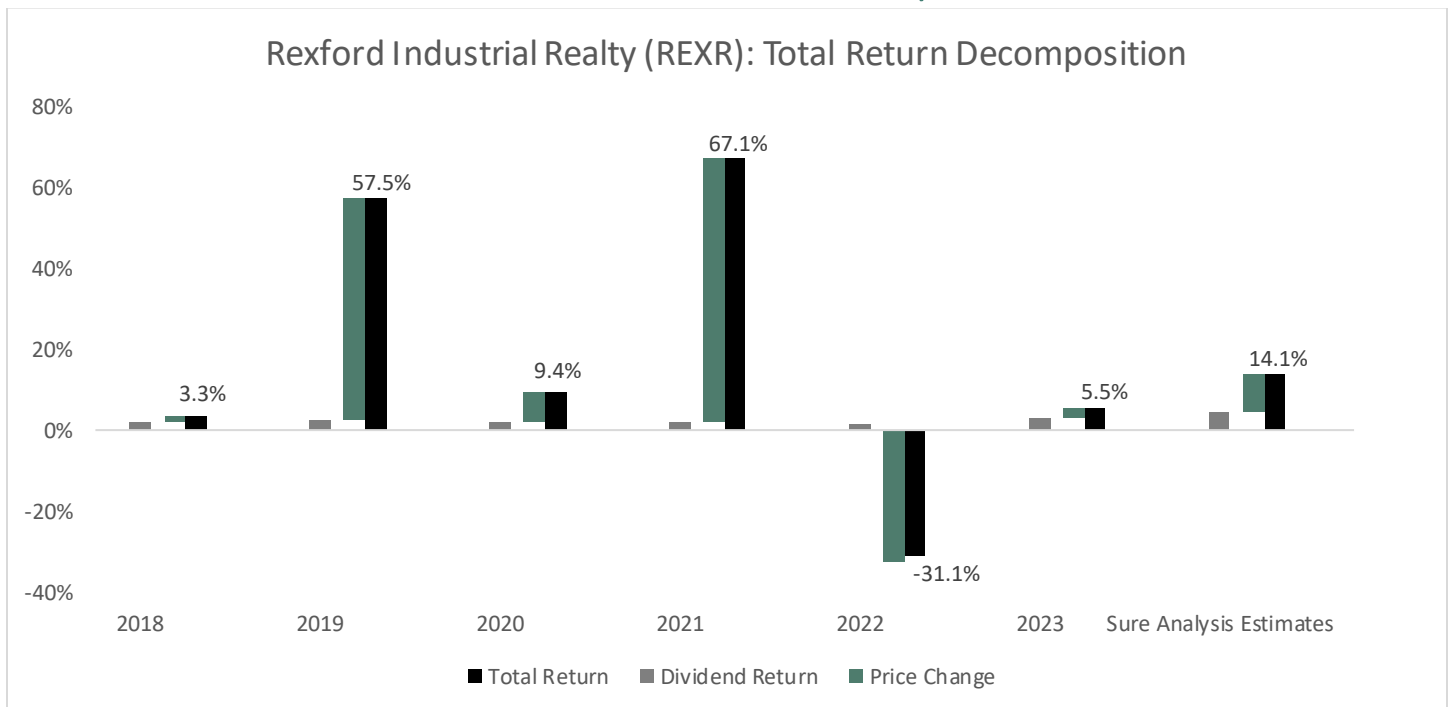
Rexford Industrial is offering a 3.7% dividend yield, which is lower than the 4.1% median dividend yield of the REIT sector. However, investors should not dismiss this high-quality REIT for this reason. The REIT has grown its dividend by 17% per year on average over the last decade. It also has one of the strongest balance sheets in the REIT sector, with an interest coverage ratio of 4.1 and net debt of \$3.7 billion, which is only 35% of the market capitalization. Thanks to its pristine balance sheet and its reliable growth trajectory, Rexford Industrial is likely to keep raising its dividend meaningfully for many more years. Therefore, the REIT is suitable not only for growth-oriented investors, but also for income-oriented investors.

It is also worth noting that Rexford Industrial proved resilient to the recession caused by the pandemic in 2020, as it kept growing its FFO per share and its dividend during that crisis.

Final Thoughts & Recommendation

Rexford Industrial is highly attractive from a long-term perspective. It can offer a 14.1% average annual return over the next five years thanks to 10.0% annual growth of FFO per share, its 3.7% dividend and a 1.0% valuation tailwind. The stock maintains its strong buy rating for investors who can wait patiently for interest rates to moderate in the upcoming years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	67	94	126	161	212	267	330	452	631	798
Gross Profit	48	69	93	119	161	204	250	345	481	613
Gross Margin	72.4%	73.4%	73.4%	73.9%	75.7%	76.3%	75.9%	76.2%	76.2%	76.9%
SG&A Exp.	12	15	17	22	25	30	37	49	64	75
D&A Exp.	29	42	51	63	74	91	105	136	166	215
Operating Profit	7	12	24	33	56	75	98	144	220	294
Op. Margin	11.2%	12.8%	18.8%	20.3%	26.2%	28.0%	29.8%	31.9%	34.8%	36.8%
Net Profit	1	2	25	41	46	62	76	128	168	238
Net Margin	1.3%	2.0%	19.9%	25.2%	21.7%	23.2%	23.1%	28.4%	26.5%	29.8%
Free Cash Flow	11	18	25	34	45	92	104	129	193	161

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	932	1,153	1,515	2,111	2,788	3,639	4,951	6,781	9,259	10,930
Cash & Equivalents	9	5	16	7	181	79	176	44	37	33
Acct Recv.	7	11	15	19	27	36	51	73	103	141
Goodwill	33	36	42	54	61	78	97	137	175	159
Total Liabilities	386	460	553	746	879	1,016	1,421	1,713	2,336	2,786
Long-Term Debt	356	418	500	669	757	858	1,216	1,400	1,936	2,226
Shareholder's Equity	520	672	853	1,180	1,717	2,314	3,003	4,629	6,401	7,611
LTD/E Ratio	0.69	0.62	0.53	0.50	0.40	0.34	0.37	0.29	0.30	0.29

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.1%	0.2%	1.9%	2.2%	1.9%	1.9%	1.8%	2.2%	2.1%	2.4%
Return on Equity	0.2%	0.3%	3.0%	3.5%	2.8%	2.7%	2.5%	3.0%	2.8%	3.2%
ROIC	0.1%	0.2%	2.0%	2.3%	2.0%	2.0%	1.9%	2.3%	2.2%	2.5%
Shares Out.	32.0	54.0	63.0	71.6	87.3	106.8	121.2	140.1	171.0	203.1
Revenue/Share	2.08	1.74	2.00	2.25	2.43	2.50	2.72	3.23	3.69	3.93
FCF/Share	0.33	0.34	0.39	0.48	0.51	0.86	0.86	0.92	1.13	0.79

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

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