

Research

Prologis Outlook Revised To Positive; Improved Competitive Position And Financials Could Trigger Upgrade

Primary Credit Analyst:

Robert E Schulz, CFA, New York (1) 212-438-7808; robert.schulz@standardandpoors.com

Secondary Contact:

Michael H Souers, New York (1) 212-438-2508; michael.souers@standardandpoors.com

- Prologis Inc. is the largest REIT in the industrial subsector, with a global platform with assets in 20 countries; the pace of global commerce drives the company's business and led to strong operating performance in fiscal 2015.
- We are revising our outlook to positive from stable and affirming our ratings on Prologis Inc., Prologis L.P., Prologis, and PLD International Finance Inc. (collectively Prologis), including the 'BBB+' corporate credit rating.
- The positive outlook reflects our view that an upgrade to 'A-' is possible during the next 12 to 24 months if industrial and commerce fundamentals remain resilient, Prologis' maintains a highly occupied, well-diversified global portfolio such that rent growth drives modest growth in net operating income (NOI) and development activities are both measured and conservatively funded. This would lead us to conclude that the company's business strength supports a higher rating. Prologis' financial policies have supported debt reduction, and a continuation of this philosophy would be an important factor in any upgrade; for example solid prospects for adjusted leverage declining toward the mid-6x range.

NEW YORK (Standard & Poor's) March 31, 2016--Standard & Poor's Ratings Services today revised its outlook on San Francisco-based Prologis Inc., Prologis L.P., Prologis, and PLD International Finance Inc. (collectively Prologis) to positive from stable. We affirmed our 'BBB+' corporate credit rating as well as our 'BBB+' issue-level rating on the company's senior unsecured debt and 'BBB-' rating on its preferred stock.

Prologis Outlook Revised To Positive; Improved Competitive Position And Financials Could Trigger Upgrade

"The positive outlook reflects our view that Prologis' business strengths may improve over the next 12 to 24 months if the company drives rent growth and remains measured in development funding while industrial and commerce fundamentals remain resilient, leading to a modest upgrade," said credit analyst Robert Schulz. "We would also want to believe that Prologis' financial policies would continue to support debt reduction; for example solid prospects for adjusted leverage declining toward the mid-6x range."

The positive outlook reflects our view that industrial fundamentals should continue to improve over the next 12 to 24 months and that Prologis' well-diversified global portfolio will experience stable to improving occupancy and rent growth leading to modest NOI growth and improving our view of the company's business strengths. These trends, along with some further deleveraging, and continued prudent development, reflecting conservative financial policies would further support an upgrade.

We could revise the outlook to stable if business fundamentals for the company's portfolio begin to experience deterioration, leading to slower or negative net rent growth, and/or the company pursues more aggressive development/acquisitions and financing strategies, such that key credit measures fail to improve with adjusted debt to EBITDA sustained at or above 7.5x and FCC declines towards in the 3x area.

We would raise the rating to 'A-' if Prologis continues to sustain strong operating performance and pursues development prudently such that funding is at least leverage neutral, while reducing overall leverage, and seems poised to drive adjusted debt to EBITDA to the mid 6x area.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.