



Whitestone REIT (WSR)

Updated June 2, 2019, 2019 by Aiden Best

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	9.6%	Volatility Percentile:	65.4%
Fair Value Price:	\$12	5 Year Growth Estimate:	0.0%	Momentum Percentile:	67.2%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	0.0%	Growth Percentile:	1.6%
Dividend Yield:	9.6%	5 Year Price Target	\$12	Valuation Percentile:	42.5%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	38.2%

Overview & Current Events

Whitestone REIT manages and operates over seventy retail, office, and warehouse properties. They own approximately 6 million square feet in community centered properties in Texas, Illinois and Arizona. Whitestone has been able to triple revenues and raise the average rent per square foot by 40% in the past 8 years. Whitestone has a market cap of \$497 million and revenue in 2018 was just over \$122 million. Whitecap invests in properties in high growth markets and is looking to diversify geographically.

In Q1 of 2019, Whitestone's net income was \$2.8 million compared to \$3.2 million in Q1 of 2018. They were able to increase their same store NOI by 2.4% but Funds from Operations (FFO) remained the same at \$0.24 per share.

Whitestone increased their rental rates on new and renewal leases by 8.4% and as a result annualized base rent per square foot increased by 5.8%. On March 25th the company declared a quarterly cash distribution of \$0.285 which is \$1.14 annualized. As of March 31st, 49 out of the 71 of the wholly owned properties are without debt. Whitestone has a total of \$620 million in debt of which, 86% is locked in at fixed rates. Currently, the weighted average interest rate and duration on the fixed debt is 4.08% and 6.0 years respectively. The EBITDA grew to \$17.1 million from \$16.8 million. This is largely due to the fact that there was no loss on the sale of properties.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	N/A	N/A	N/A	N/A	\$0.79	\$0.96	\$1.04	\$0.93	\$0.95	\$0.97	\$0.96	\$0.96
DPS	\$0.45	\$1.19	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14
Shares	N/A	2.20	8.83	16.84	21.94	22.83	26.99	29.25	38.49	39.77	43.17	61.11

Since Whitestone began reporting FFO, they have seen minimal growth in their funds-from-operations-per-share (FFO/S). This is not a result of decreased FFO but an increase in shares outstanding. The reason why the REIT has been issuing shares is because it is using them to fund acquisitions. With the issuance of these shares, it has put a hold on dividend growth. Between 2016 and 2019, Whitestone issued over 10.52 million shares. Given the past and current Dividend per Share (DPS) of \$1.14, this equates to approximately 12 million dollars per year that must be issued as dividends on the additional shares. On the plus side, Whitestone has been able to acquire \$283 million worth of property since 2016 but they have only grown their revenue by \$18 million since 2016. Fortunately, Whitestone has been able to increase their net income from continuing operations by almost \$14 million but per share they have decreased. Whitecap plans to issue up to 3,433,931 common shares under the Long-Term Equity Incentive Ownership Plan. The company is able to issue up to 5,000,000 common shares and historically has issued approximately 3,500,000 shares per year in the last 5 years. Given the increase in shares outstanding, it is unlikely that even as revenue increases the FFO/S will increase as well.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	N/A	N/A	N/A	N/A	16.6	15.8	11.5	15.5	15.2	12.9	12.0	12.0
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	119%	110%	123%	120%	118%	119%	119%

Whitestone has historically traded at a Price to Funds from Operations (P/FFO) multiple of 14.7 over the past 5 years but is currently trading at a multiple of 12.9. Given the fact that the FFO/S is decreasing in the next 5 years, the P/FFO will remain around 12.0.

Safety, Quality, Competitive Advantage, & Recession Resiliency

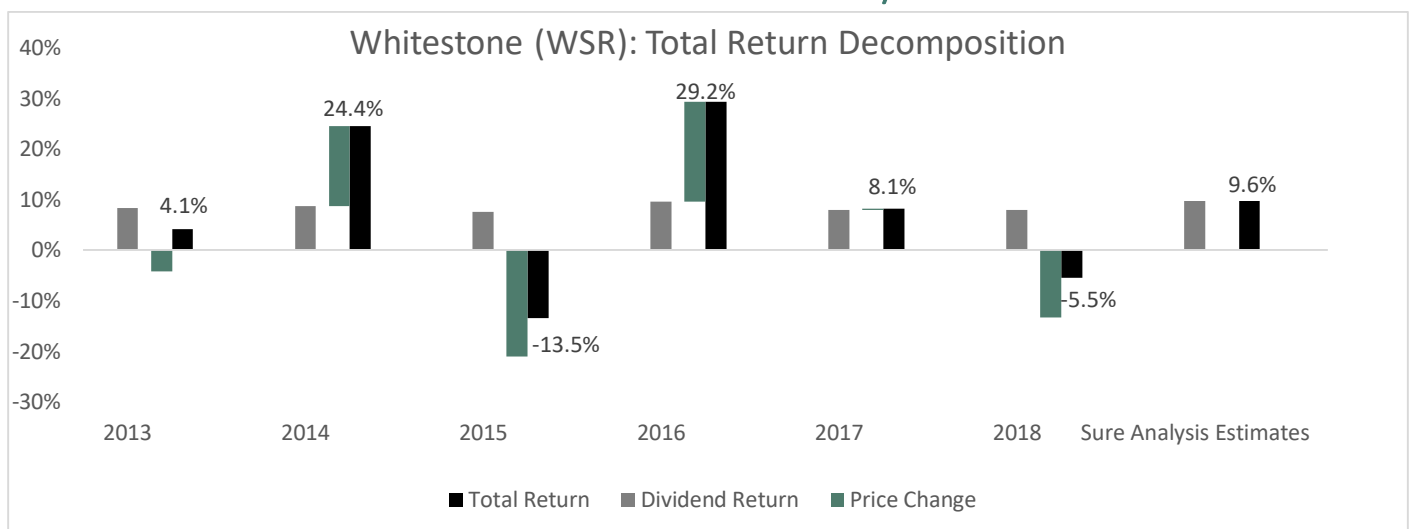
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	144%	119%	110%	123%	120%	118%	119%	119%

Whitestone had some financial troubles during the last recession in 2008. From 2007 to 2008 rental income drops by 5.8 million and it took until 2012 for the rental income to return to 2007 highs. Also, the payout ratio is above 100% which means that the dividend is only sustainable by adding debt. Since this time, Whitestone has increased their office space holdings which are more resilient during recessions but overall the company is not very resilient to recession. The company has locked in over 70% of their debt into fixed rates. They have also been able to decrease their Debt/EBITDA ratio from 8.95 in 2015 to 8.4 in 2018, which is still very high. Their goal is to decrease this multiple to 7 times in the next 5 years. The company has also implemented a sustainability plan for all their redevelopments to increase efficiencies and decrease carbon emissions.

Final Thoughts & Recommendation

Whitestone has an expected annualized total return of 9.6% over the next five years, coming entirely from its dividend. Concerns surrounding this REIT include significant share issuances, a high debt load, and an unsustainable payout ratio. While Whitestone offers decent total return potential, it has an elevated dividend cut risk and should only be considered as a high-risk hold for speculative investors who don't expect the current high yield to last.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	33	32	35	45	60	72	93	104	126	120
Gross Profit	20	19	22	28	38	47	62	70	84	82
Gross Margin	60.3%	61.0%	61.8%	62.6%	62.5%	65.3%	66.5%	67.4%	66.6%	68.8%
SG&A Exp.	6	5	7	8	11	15	20	24	24	23
D&A Exp.	7	7	8	10	13	16	20	22	27	26
Operating Profit	7	7	7	11	14	16	22	24	33	33
Operating Margin	20.4%	23.6%	20.6%	23.7%	22.8%	22.4%	23.6%	22.9%	25.9%	27.9%
Net Profit	1	1	1	0	4	8	7	8	8	21
Net Margin	4.1%	3.5%	3.2%	0.1%	6.3%	10.5%	7.2%	7.6%	6.6%	17.9%
Free Cash Flow	0	10	8	11	24	26	36	41	41	40

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	182	196	273	385	508	634	782	855	1070	1029
Total Liabilities	115	112	143	212	287	421	535	588	712	670
Accounts Payable	10	7	9	14	13	16	24	29	36	34
Long-Term Debt	102	101	128	191	261	394	498	544	659	618
Shareholder's Equity	44	63	116	166	216	210	243	256	348	350
D/E Ratio	2.34	1.61	1.10	1.15	1.21	1.88	2.05	2.13	1.90	1.76

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.7%	0.6%	0.5%	0.0%	0.8%	1.3%	1.0%	1.0%	0.9%	2.0%
Return on Equity	3.0%	2.1%	1.3%	0.0%	2.0%	3.6%	3.0%	3.2%	2.8%	6.1%
ROIC	0.8%	0.6%	0.5%	0.0%	0.9%	1.4%	1.0%	1.0%	0.9%	2.1%
Shares Out.	N/A	2.20	8.83	16.84	21.94	22.83	26.99	29.25	38.49	39.77
Revenue/Share	9.90	7.80	3.86	3.31	3.31	3.18	3.64	3.68	3.47	2.95
FCF/Share	-0.10	2.57	0.93	0.82	1.31	1.13	1.41	1.43	1.14	0.97

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

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