



Whitestone REIT (WSR)

Updated November 28th, 2020 by Kay Ng

Key Metrics

Current Price:	\$8	5 Year CAGR Estimate:	5.9%	Market Cap:	\$337M
Fair Value Price:	\$8	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/01/20
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	12/10/20
Dividend Yield:	5.3%	5 Year Price Target	\$8	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

Whitestone is a retail REIT that owns about 58 properties with about 5.0 million square feet of gross leasable area in six top U.S. markets in Texas (30 properties) and Arizona (27 properties). Its tenant base is very diversified with about 1,386 tenants. The top 5 industries are restaurant & food service (23% of annual base rent (ABR)), grocery (9%), financial services (9%), salons (8%), and medical & dental (7%). Whitestone was founded in 1998 and headquartered in Houston, Texas.

Whitestone reported its third-quarter 2020 results on 10/26/20. In Q3, the funds from operations per share fell 14% to \$0.19 compared to the same quarter a year ago. For the quarter, the occupancy was 88.9%, same-store property net operating income (NOI) declined 4.5%. The Q3 results continued to experience impacts from the COVID-19 pandemic.

The REIT collected 90% of Q3 contractual rents, up from 81% in Q2. Regardless, the REIT's results for this year are going to be pulled down by the pandemic. At the end of Q3, about 97% of its tenants (based on annualized base rent) were open for business. In light of COVID-19 disruptions, earlier in the year, Whitestone reduced its monthly dividend by 63% to \$0.035 per share.

Year to date, Whitestone's FFOPS fell 13% to \$0.60. Due to high uncertainties, the company hasn't provided 2020 FFO guidance. We estimate a roughly 15% reduction in its FFO this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFOPS	N/A	N/A	N/A	\$0.79	\$0.96	\$1.04	\$0.93	\$0.95	\$0.97	\$0.90	\$0.77	\$0.89
DPS	\$1.19	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$0.42	\$0.60
Shares¹	2.2	8.8	16.8	21.9	22.8	27.0	29.2	38.5	39.8	40.6	41.4	45.7

Since Whitestone began reporting FFO, it has seen minimal growth in its funds-from-operations-per-share (FFOPS). This is not a result of decreased FFO but an increase in shares outstanding. The REIT has been issuing shares because it has been using them to fund acquisitions. The share issuance has put a hold on dividend growth. Between 2016 and 2019, Whitestone issued more than 11 million shares. The REIT has halted acquisitions and development projects, and reduced expenses, as it focuses on improving its financial position and liquidity.

As we cautioned previously, the REIT's payout was unsustainable. The stressful operating environment triggered the REIT to cut its dividend substantially. It's possible for Whitestone to recover its FFOPS to close to pre-COVID-19 levels by 2025 on a steady recovery.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	--	--	--	16.6	15.8	11.5	15.5	15.2	12.9	14.6	10.3	9.0
Avg. Yld.	--	--	--	--	7.5%	9.5%	7.9%	7.9%	9.3%	8.7%	5.3%	7.5%

1. Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Whitestone traded at a price to funds from operations multiple of 13.9 over the past 5 years. The stock appears to be relatively cheap at the current P/FFO of 10.3. However, there's higher risk in buying the stock now as its FFOPS is on a decline. Consequently, we think a lower multiple of 9 is more appropriate, which would make the stock expensive today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

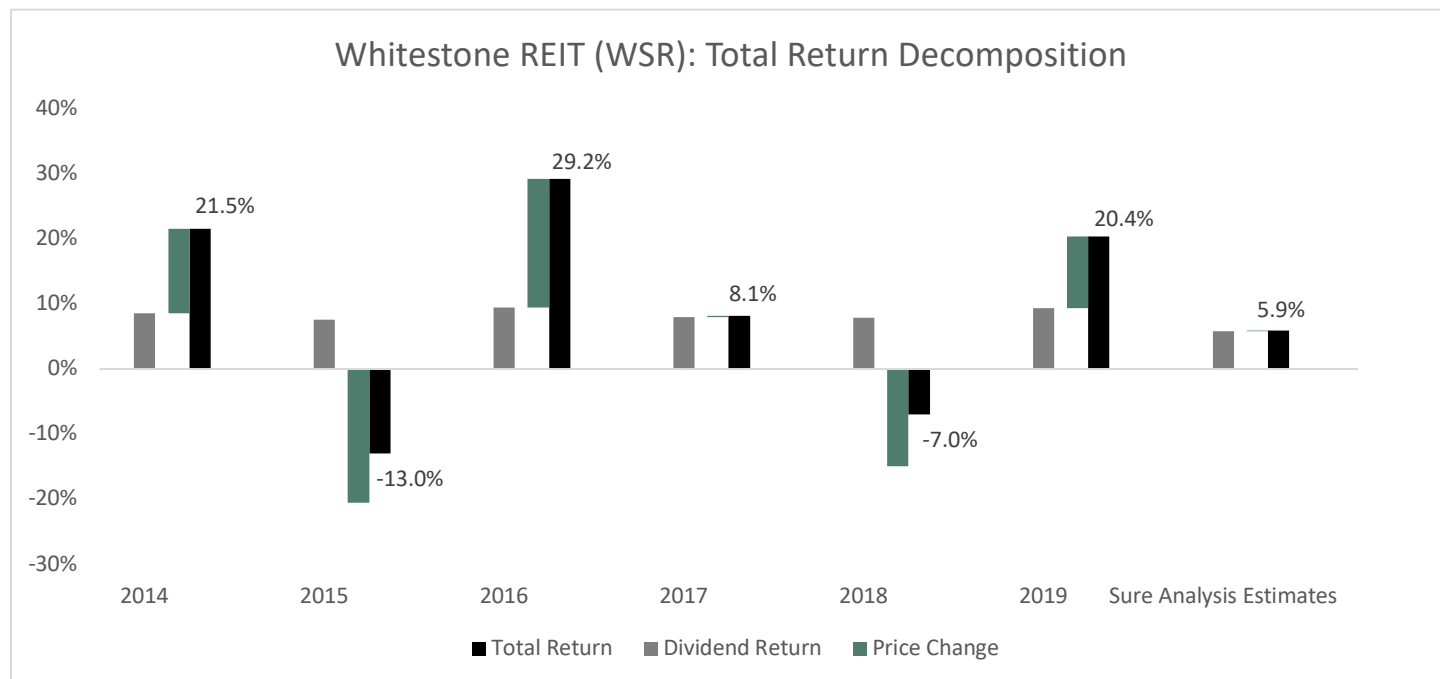
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	--	--	--	144%	119%	110%	123%	120%	118%	127%	55%	67%

Whitestone had some financial troubles during the last recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. After cutting the dividend by 63%, Whitestone's dividend is much more sustainable in the 50% range. The REIT should improve its payout as rents stabilize after COVID-19, but we don't expect this to happen for at least a few quarters. Moreover, it would be wise if the REIT *didn't* recover its dividend to pre-COVID-19 levels, but to keep a sustainable payout instead. At the end of Q3, Whitestone has a debt-to-equity ratio of about 2.2x. However, the lower dividend allows it to save \$31 million a year. As of late October, the REIT had ~\$41 million in cash and cash equivalents, \$13 million of availability, and \$110.5 million of capacity under its credit facility. It has no real estate debt maturing in 2021. Therefore, it should be able to survive through 2021.

Final Thoughts & Recommendation

Whitestone has an expected annualized total return of 5.9% over the next five years, coming from a 5.3% forward dividend yield, 0% growth, and 0.1% valuation expansion. Concerns surrounding this REIT include how long it'd take for it to recover from COVID-19 and its tendency to make acquisitions via the help of share issuances. We rate the stock a sell. Investors should seek higher-quality, better-return ideas in the Sure Dividend coverage universe.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	32	35	45	60	72	93	104	126	120	119
Gross Profit	19	22	28	38	47	62	70	84	82	82
Gross Margin	61.0%	61.8%	62.6%	62.5%	65.3%	66.5%	67.4%	66.6%	68.8%	69.1%
SG&A Exp.	5	7	8	11	15	20	24	24	23	22
D&A Exp.	7	8	10	13	16	20	22	27	26	27
Operating Profit	7	7	11	14	16	22	24	33	33	34
Operating Margin	23.6%	20.6%	23.7%	22.8%	22.4%	23.6%	22.9%	25.9%	27.9%	28.5%
Net Profit	1	1	0	4	8	7	8	8	21	24
Net Margin	3.5%	3.2%	0.1%	6.3%	10.5%	7.2%	7.6%	6.6%	17.9%	19.9%
Free Cash Flow	10	8	11	24	26	36	41	41	40	48
Income Tax										

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	196	273	385	508	634	782	855	1070	1029	1056
Cash & Equivalents	18	6	7	6	4	3	4	5	14	16
Accounts Receivable	5	6	8	10	12	15	20	21	21	23
Total Liabilities	112	143	212	287	421	535	588	712	670	703
Accounts Payable	7	9	14	13	16	24	29	36	34	39
Long-Term Debt	101	128	191	261	394	498	544	659	618	645
Shareholder's Equity	63	116	166	216	210	243	256	348	350	345
D/E Ratio	1.61	1.10	1.15	1.21	1.88	2.05	2.13	1.90	1.76	1.87

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.6%	0.5%	0.0%	0.8%	1.3%	1.0%	1.0%	0.9%	2.0%	2.3%
Return on Equity	2.1%	1.3%	0.0%	2.0%	3.6%	3.0%	3.2%	2.8%	6.1%	6.8%
ROIC	0.6%	0.5%	0.0%	0.9%	1.4%	1.0%	1.0%	0.9%	2.1%	2.4%
Shares Out.	4.04	9.04	13.61	18.27	22.79	25.68	28.38	36.26	40.61	41.46
Revenue/Share	7.80	3.86	3.31	3.31	3.18	3.64	3.68	3.47	2.95	2.88
FCF/Share	2.57	0.93	0.82	1.31	1.13	1.41	1.43	1.14	0.97	1.15

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

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