



Whitestone REIT (WSR)

Updated March 24th, 2021 by Kay Ng

Key Metrics

Current Price:	\$9	5 Year CAGR Estimate:	8.1%	Market Cap:	\$390M
Fair Value Price:	\$10	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	04/01/21
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date¹:	04/11/21
Dividend Yield:	4.7%	5 Year Price Target	\$11	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	2.4%

Overview & Current Events

Whitestone is a retail REIT that owns about 58 properties with about 5.0 million square feet of gross leasable area primarily top U.S. markets in Texas and Arizona. Its tenant base is very diversified with about 1,391 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 fourth-quarter and full-year 2020 results on 02/24/21. For the quarter, the funds from operations (“FFO”) climbed 14.6% to \$10.2 million, while the funds from operations per share (“FFOPS”) climbed 9.5% to \$0.23 compared to the same quarter a year ago. The occupancy was 88.2%, same-store property net operating income (SSNOI) declined 4.2%. Although its SSNOI declined during the COVID-19 pandemic, management pointed out that the REIT’s SSNOI decline of 4% fared better than the peer group’s average of 9.3%.

For 2020, the FFO dropped 4.3% to \$36.4 million, while the FFOPS fell 7.8% to \$0.83 versus 2019. As of 02/23/21, 99% of its tenants were open and operating. In February, the company raised its quarterly dividend by 2.4% to \$0.1075, which translates to a monthly dividend of \$0.035833 per share or an annualized payout of \$0.43 per share. We estimate a normalized 2021 FFOPS of \$0.90.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFOPS	N/A	N/A	\$0.79	\$0.96	\$1.04	\$0.93	\$0.95	\$0.97	\$0.90	\$0.83	\$0.90	\$0.99
DPS	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$0.42	\$0.43	\$0.60
Shares¹	8.8	16.8	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3	44.2	48.8

Since Whitestone began reporting FFO, it has seen minimal growth in its 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. Between 2016 and 2019, Whitestone issued more than 11 million shares. This resulted in no dividend growth during this period. During the pandemic, the REIT rightly halted acquisitions and development projects, and reduced expenses, as it focuses on improving its financial position and liquidity. The February 2021 dividend increase is a good sign. For now, we use an estimated dividend growth rate of 7% through 2026, which would still lead to a sustainable payout ratio for a REIT.

Management believes, post-pandemic, investments in acquisitions, re-development, and development projects can drive returns of at least 10%. We would first like to see the SSNOI turn positive, which will likely be helped by a more supportive macro environment post-pandemic. For now, we estimate a FFOPS growth rate of 2% through 2026 on a steady recovery. We would improve our estimates if/when we see the REITs’ investments paying off.

1. Estimated dividend dates; 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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	--	--	16.6	15.8	11.5	15.5	15.2	12.9	14.6	9.2	10.2	11.0
Avg. Yld.	--	--	--	7.5%	9.5%	7.9%	7.9%	9.3%	8.7%	5.5%	4.7%	5.5%

Whitestone traded at a price to funds from operations multiple of 13.5 over the past 5 years. The stock appears to be roughly fairly valued at the current P/FFO of 10.2. For now, we prudently give a fair P/FFO of 11 for the stock. If the REIT is able to drive persistent growth in its FFOPS post-pandemic, it should be able to command a higher multiple. Time will tell.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	--	--	144%	119%	110%	123%	120%	118%	127%	51%	48%	61%

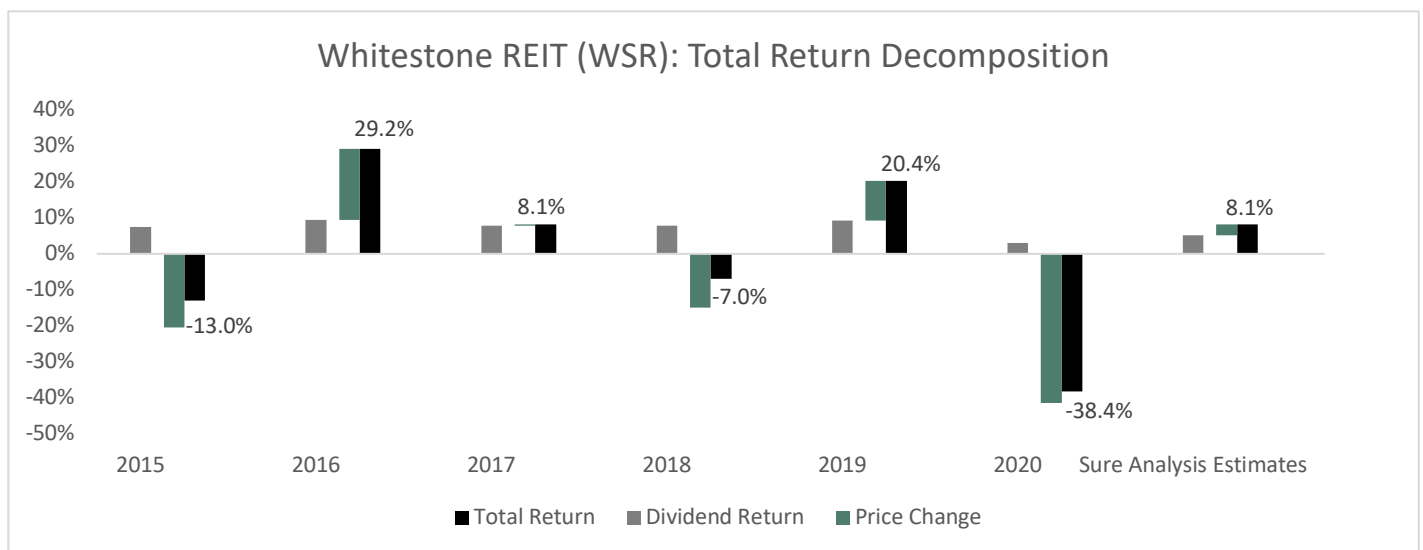
Whitestone had some financial troubles during the last recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. Whitestone cut its dividend by 63% in 2020. It looks like it's ready to steadily increase its dividend to the pre-pandemic levels starting with a cautious increase of 2.4%. Currently, the payout ratio at about 50% is a sustainable one.

At the end of 2020, Whitestone had a debt-to-equity ratio of about 2.1x. As of February 23, 2021, the REIT had \$10.2 million in cash and cash equivalents. Moreover, its dividend is still much lower than before, allowing it to save about \$27 million a year versus the pre-cut levels. Whitestone has no real estate debt maturing in 2021. Therefore, it's set to survive through 2021.

Final Thoughts & Recommendation

Whitestone has an expected annualized total return of 8.1% over the next five years, coming from a 4.7% dividend yield, 2% growth, and 1.5% 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 hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	35	45	60	72	93	104	126	120	119	118
Gross Profit	22	28	38	47	62	70	84	82	82	79
Gross Margin	61.8%	62.6%	62.5%	65.3%	66.5%	67.4%	66.6%	68.8%	69.1%	67.3%
SG&A Exp.	7	8	11	15	20	24	24	23	22	21
D&A Exp.	8	10	13	16	20	22	27	26	27	28
Operating Profit	7	11	14	16	22	24	33	33	34	30
Operating Margin	20.6%	23.7%	22.8%	22.4%	23.6%	22.9%	25.9%	27.9%	28.5%	25.2%
Net Profit	1	0	4	8	7	8	8	21	24	6
Net Margin	3.2%	0.1%	6.3%	10.5%	7.2%	7.6%	6.6%	17.9%	19.9%	5.1%
Free Cash Flow	8	11	24	26	36	41	41	40	48	43
Income Tax	0.2	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.4

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	273	385	508	634	782	855	1070	1029	1056	1045
Cash & Equivalents	6	7	6	4	3	4	5	14	16	26
Accounts Receivable	6	8	10	12	15	20	21	21	23	23
Total Liabilities	143	212	287	421	535	588	712	670	703	707
Accounts Payable	9	14	13	16	24	29	36	34	39	51
Long-Term Debt	128	191	261	394	498	544	659	618	645	644
Shareholder's Equity	116	166	216	210	243	256	348	350	345	332
D/E Ratio	1.10	1.15	1.21	1.88	2.05	2.13	1.90	1.76	1.87	1.94

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.5%	0.0%	0.8%	1.3%	1.0%	1.0%	0.9%	2.0%	2.3%	0.6%
Return on Equity	1.3%	0.0%	2.0%	3.6%	3.0%	3.2%	2.8%	6.1%	6.8%	1.8%
ROIC	0.5%	0.0%	0.9%	1.4%	1.0%	1.0%	0.9%	2.1%	2.4%	0.6%
Shares Out.	8.8	16.8	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3
Revenue/Share	3.86	3.31	3.31	3.18	3.64	3.68	3.47	2.95	2.88	2.74
FCF/Share	0.93	0.82	1.31	1.13	1.41	1.43	1.14	0.97	1.15	1.00

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

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