



CTO Realty Growth (CTO)

Updated November 2nd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	11.2%	Market Cap:	\$319 M
Fair Value Price:	\$56	5 Year Growth Estimate:	4.5%	Ex-Dividend Date¹:	11/08/2021
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date¹:	11/30/2021
Dividend Yield:	7.5%	5 Year Price Target	\$70	Years Of Dividend Growth:	8
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	150%

Overview & Current Events

CTO Realty Growth is a diversified real estate investment trust which owns and operates a diversified portfolio of income properties totaling roughly 2.2 million square feet within the United States. CTO also owns a significant 16% interest in Alpine Income Property Trust, which is a publicly traded net lease REIT which trades under the ticker PINE on the NYSE. CTO Realty Growth is headquartered in Daytona Beach, Florida and also trades on the NYSE, under the ticker symbol CTO. CTO has a market capitalization of \$319 million. While the trust has been publicly traded since 1973, it has only become a registered REIT in the year 2020. CTO Realty traces its roots all the way back to 1902 when Seven Naval Store companies are consolidated into Consolidated Naval Stores Trust. In 1910, Tomoka Land Trust is created as a subsidiary to Consolidated Naval Stores Trust. In 1969, Tomoka Land Trust changed its name to Consolidated Tomoka Land Co. (CTO). Finally, in 2020, the same year the trust becomes an REIT, Consolidated Tomoka Land Co. changes the name to CTO Realty Growth, Inc, a name that aligns with the future of CTO and acknowledges its 110-year history.

On October 28th, CTO Realty Growth announced net income per diluted share of \$3.87, which compares favorably to a net loss of \$(0.33) per share in the prior year quarter. FFO per diluted share decreased 13.4% from \$1.19 to \$1.03. Adjusted FFO per diluted share fell 16.2%, from \$1.30 a year ago to \$1.09 this quarter. The dividend is also considerably higher than last year, at \$1.00 per quarter vs \$0.40.

During the quarter, CTO purchased the 70% remaining interest in the entity holding roughly 2,500 acres of land in Daytona Beach, Florida from the JV partner for \$16.1 million in cash. Additionally, the trust disposed of four single tenant income properties for total disposition of \$75.3 million. The trust also sold roughly 4,700 acres of subsurface oil, gas, and mineral rights for \$0.9 million. At quarter end, CTO's book value per share stood at \$60.42.

Leadership provided revised 2021 outlook and expects to make acquisitions of roughly \$238 million in the fiscal year to purchase income producing assets with a target investment initial cash yield of between 7.00% and 7.25%. The trust anticipates FFO per diluted share of roughly \$3.80 and AFFO per diluted share of roughly \$4.15. The trust also anticipates ending the year with 6.0 million weighted average diluted shares outstanding.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	---	---	---	---	---	---	---	\$2.39	\$2.97	\$5.57	\$4.15	\$5.17
EPS	\$(0.82)	\$0.09	\$0.44	\$1.10	\$1.43	\$3.10	\$7.48	\$4.45	\$3.32	\$17.95	\$5.00	\$6.38
DPS	\$0.04	\$0.04	\$0.06	\$0.07	\$0.08	\$0.12	\$0.18	\$0.27	\$0.44	\$13.88	\$4.00	\$4.42
Shares	5.7	5.8	5.9	5.9	5.9	5.7	5.6	5.4	4.8	5.9	6.0	7.0

CTO Realty Growth has an incredibly unique history and has measured its growth in different metrics across its history. Prior to 2020, CTO Realty Growth operated as a regular corporation and had a different name. Historically, the trust focused on growing earnings per share, and it did so for a long period of time. However, more recently the trust has

¹ Estimate

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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utilized adjusted FFO to measure their financial progress. As a result, our relevant data only goes back so far. We believe that the CTO Realty Growth of today should be measured by their adjusted FFO performance. Still yet, the results of 2020 include many one-time items related to the trust's transformation into a real estate investment trust. This also explains the incredibly large special dividend which was paid as a result of the conversion. We estimate CTO can grow AFFO by around 4.5% annually going forward. CTO will drive earnings grow through capital recycling and focusing on constructing a real estate portfolio with durable and stable tenants located in the faster growing, business friendly states like Florida, Texas, and Georgia. Their 16% ownership position in PINE allows for the trust to benefit from external management which provides in-place cash flow and upside. The trust will continue shedding single-tenant properties in favor of multi-tenant properties.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	---	---	---	---	---	---	---	25.7	20.7	11.0	12.9	13.5
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%	2.1%	7.5%	6.3%

To value CTO today, we utilize the trust's adjusted FFO. The trust's price-to-adjusted FFO of 12.9 times is slightly below our estimated fair value of 13.5 times, resulting in a 0.9% valuation tailwind in the near term. The 7.5% yield today is extremely strong, off the back of the recent massive dividend increase. The trust's average yield is a pittance at 0.7% on average over the last five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	44%	14%	6%	6%	4%	2%	6%	13%	77%	96%	85%

The trust's payout ratio, for most of its history, was very well covered since the dividend was very small. Even so, the trust grew the dividend for eight consecutive years, even throughout the pandemic. Now that the trust has converted into an REIT, it must pay out to shareholders the vast majority of earnings, thus the payout ratio is ballooning. This should normalize and moderate over the coming years as adjusted FFO grow faster than the dividend. While not a major competitive advantage, it is unique that CTO owns or partially owns subsurface oil, gas, and mineral interests which it leases for exploration to exploration firms.

Final Thoughts & Recommendation

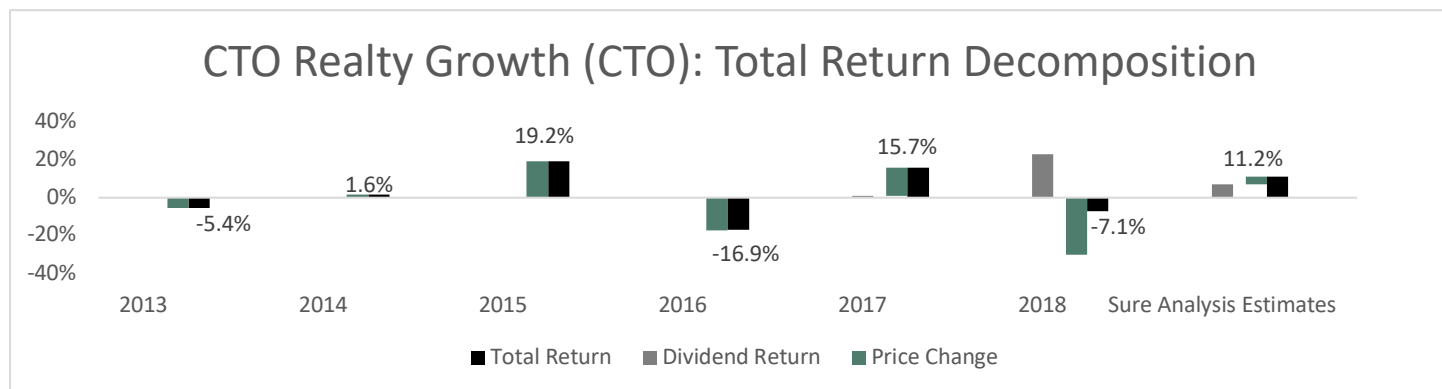
CTO Realty Growth is a unique real estate investment trust with a history spanning over 110 years old. The trust has also now converted into a REIT, so it could be a couple of years until financial results begin to normalize. That said, the trust is currently trading 5% below fair value and we estimate total returns of 11.2%, so we rate shares a Buy as total returns are strong, but conservative investors may want to see results normalize first.



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Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13	16	26	36	43	66	39	44	45	56
Gross Profit	5	9	15	24	29	46	30	35	38	41
Gross Margin	38.9%	57.0%	58.4%	65.2%	68.0%	69.3%	78.4%	79.9%	84.2%	73.0%
SG&A Exp.	5	7	5	7	9	10	10	10	10	10
D&A Exp.	2	2	3	3	5	8	13	16	16	19
Operating Profit	(3)	1	7	13	15	27	8	9	12	12
Operating Margin	-20.0%	3.8%	26.5%	36.1%	35.5%	41.6%	20.0%	21.4%	27.2%	21.2%
Net Profit	(5)	1	4	6	8	16	42	37	115	79
Net Margin	-36.3%	3.7%	14.1%	17.7%	19.4%	24.7%	107.9%	85.1%	255.8%	139.2%
Free Cash Flow	(2)	2	1	9	23	(28)	(37)	(62)	(134)	(151)
Income Tax	(4)	(0)	2	4	5	12	(22)	6	5	(83)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	170	185	226	277	404	409	466	556	703	666
Cash & Equivalents	0	1	5	2	4	8	6	2	6	4
Accounts Receivable					3	2	3	5	4	7
Goodwill & Intang.	4	5	6	10	20	35	39	44	49	50
Total Liabilities	57	70	106	148	264	260	282	345	418	315
Accts Payable	0	0	1	1	2	2	2	1	1	1
Long-Term Debt	15	29	63	104	167	166	196	248	287	273
Shareholder's Equity	113	114	120	128	135	148	184	212	285	351
D/E Ratio	0.13	0.26	0.53	0.81	1.24	1.12	1.06	1.17	1.01	0.78

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-2.7%	0.3%	1.8%	2.5%	2.5%	4.0%	9.5%	7.3%	18.3%	11.5%
Return on Equity	-4.1%	0.5%	3.1%	5.1%	6.3%	11.5%	25.1%	18.8%	46.3%	24.7%
ROIC	-3.6%	0.4%	2.3%	3.1%	3.1%	5.2%	12.0%	8.9%	22.3%	13.1%
Shares Out.	5.7	5.8	5.9	5.9	5.9	5.7	5.6	5.4	4.8	5.9
Revenue/Share	2.27	2.84	4.54	6.23	7.38	11.57	6.93	7.90	8.99	11.98
FCF/Share	(0.41)	0.35	0.25	1.62	3.91	(4.98)	(6.65)	(11.14)	(26.87)	(32.07)

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

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