



Whitestone REIT (WSR)

Updated March 13th, 2022 by Kay Ng

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	6.8%	Market Cap:	\$636.5M
Fair Value Price:	\$13	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/01/22
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	04/14/22
Dividend Yield:	3.7%	5 Year Price Target	\$15	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	11.6%

Overview & Current Events

Whitestone is a retail REIT that owns about 60 properties with about 5.2 million square feet of gross leasable area primarily top U.S. markets in Texas and Arizona. Its tenant base is very diversified with about 1,567 tenants. The top 5 industries are roughly as follows: restaurant & food service (24% of annual base rent (ABR)), salons (9%), grocery (9%), financial services (8%), and medical & dental (8%). Whitestone was founded in 1998 and headquartered in Houston, Texas.

Whitestone reported its fourth-quarter and full-year 2021 results on 3/1/22. For the quarter, revenue growth was 11.7% to \$33.3 million. Funds from operations per share ("FFOPS") was \$0.21, down from Q4 2020's \$0.23, which was helped by a \$0.04 per share gain on loan forgiveness. So, adjusting for that loan forgiveness, FFOPS would have increased by about 10.5%. Same-store net operating income ("NOI") rose 12.8% to \$21.6 million. Occupancy for wholly owned properties improved to 91.3% versus 88.2% a year ago. As well, rental rate growth was 14.9%, up from 6.8% a year ago. For the full-year 2021, revenue growth was 6.4% to \$125.4 million, FFO was \$40.7 million, FFOPS was \$0.86 (up 3.6%, ignoring the Q4 loan forgiveness, it would have been up 8.9%), while same-store NOI growth was 5.7%.

Last month, Whitestone increased its monthly dividend by 11.6%. Whitestone gave initial 2022 guidance, including same-store NOI growth of about 4% and ending occupancy of about 92.5%. Also, it expects general and administrative expense to fall roughly \$3.2 million versus 2021. However, some of those savings will be offset some bad debt. Altogether, management expects 2022 FFOPS to be \$0.98-\$1.02. We use the midpoint of \$1.00 as our 2022 FFOPS.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFOPS	N/A	\$0.79	\$0.96	\$1.04	\$0.93	\$0.95	\$0.97	\$0.90	\$0.83	\$0.86	\$1.00	\$1.16
DPS	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$0.42	\$0.43	\$0.48	\$0.67
Shares¹	16.8	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0	53.0	70.9

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 to fund acquisitions. Between 2016 and 2021, Whitestone issued more than 20 million shares. As a result, there was no dividend growth from 2016 to 2019 and a dividend cut occurred during the pandemic. In February 2022, the company raised its dividend by 11.6% which equates to an annualized payout of \$0.48 per share. This follows the February 2021 dividend, which could be the start of a dividend growth trend if WSR can continue growing its FFOPS and healthily increase the dividend. For now, we use an estimated dividend growth rate of 7% through 2027, which would lead to a sustainable payout ratio of ~60% for a REIT. Management believes, post-pandemic, investments in acquisitions, re-development, and development projects can drive returns of at least 10%. The continuation of SSNOI growth since Q1 2021 is a good sign. We would like to see it stay that way, hopefully supported by a positive macro environment as we get used to having COVID-19 around. For now, we estimate a FFOPS growth rate of 3% through 2027 on a steady recovery. We would improve our estimates if/when we see the REITs' investments paying off.

¹ Projected 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	--	16.6	15.8	11.5	15.5	15.2	12.9	14.6	9.2	9.6	13.0	13.0
Avg. Yld.	--	--	7.5%	9.5%	7.9%	7.9%	9.3%	8.7%	5.5%	4.5%	3.7%	4.5%

Whitestone traded at a price to funds from operations multiple of 13.4 over the past 5 years. The stock appears to be fairly valued at the current P/FFO of 13.0, as it reignites growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	--	144%	119%	110%	123%	120%	118%	127%	51%	50%	48%	58%

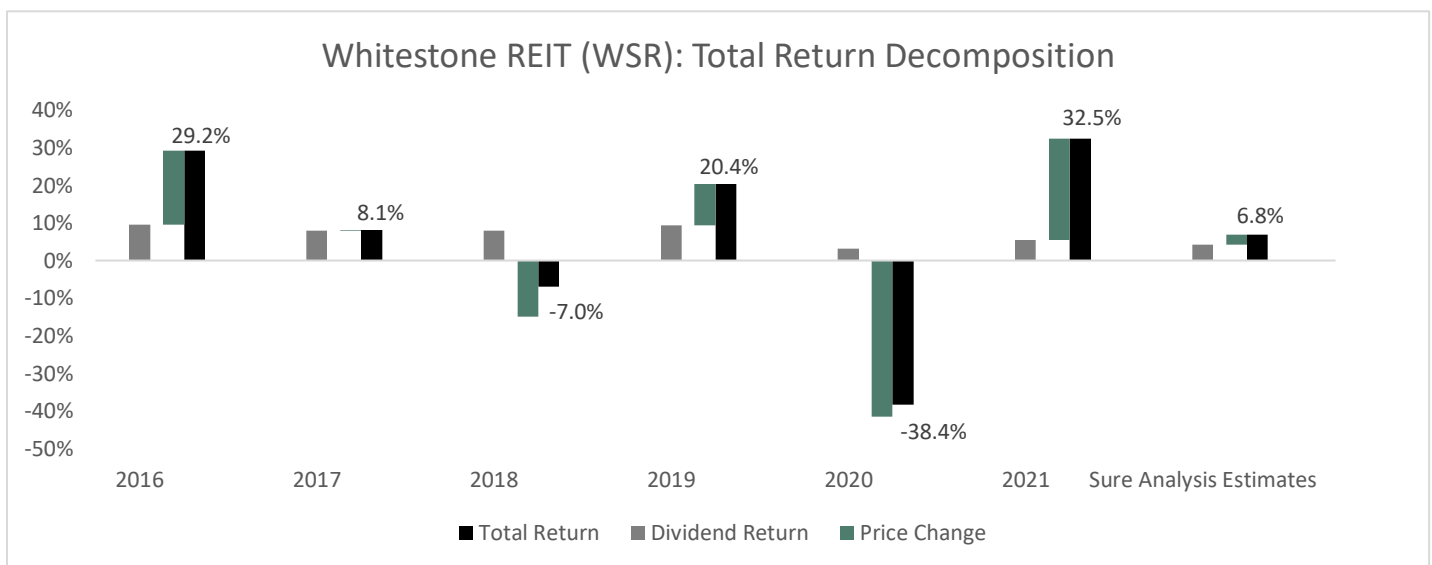
Whitestone had some financial troubles during the previous recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. Whitestone cut its dividend by 63% in 2020. It looked like it was ready to steadily increase its dividend to the pre-pandemic levels starting with a cautious increase of 2.4% in February 2021 followed by another dividend hike in Feb 2022. Currently, the payout ratio of about 50% is sustainable.

At the end of Q4 2021, Whitestone had a debt-to-assets ratio of about 64%, an improvement from 2021's 68%. As of the end of 2021, the REIT had \$15.7 million in cash and cash equivalents. Moreover, its payout ratio is much more sustainable than pre-pandemic levels because of a lower dividend and an improving FFO. Whitestone has about \$102 million of debt due this year.

Final Thoughts & Recommendation

Whitestone has an expected annualized total return of 6.8% over the next five years, coming from a 3.7% dividend yield, 3% growth, and 0.1% valuation expansion. Concerns surrounding this REIT include what is its normal growth rate in the new pandemic environment and its tendency to make acquisitions via the help of share issuances. We rate the stock as a "hold".

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	45	60	72	93	104	126	120	119	118	125
Gross Profit	28	38	47	62	70	84	82	82	79	86
Gross Margin	62.6%	62.5%	65.3%	66.5%	67.4%	66.6%	68.8%	69.1%	67.3%	68.6%
SG&A Exp.	8	11	15	20	24	24	23	22	21	23
D&A Exp.	10	13	16	20	22	27	26	27	28	29
Operating Profit	11	14	16	22	24	33	33	34	30	34
Operating Margin	23.7%	22.8%	22.4%	23.6%	22.9%	25.9%	27.9%	28.5%	25.2%	27.5%
Net Profit	0	4	8	7	8	8	21	24	6	12
Net Margin	0.1%	6.3%	10.5%	7.2%	7.6%	6.6%	17.9%	19.9%	5.1%	9.6%
Free Cash Flow	11	24	26	36	41	41	40	48	43	47
Income Tax	0	0	0	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	385	508	634	782	855	1070	1029	1056	1045	1102
Cash & Equivalents	7	6	4	3	4	5	14	16	26	16
Accounts Receivable	8	10	12	15	20	21	21	23	23	22
Total Liabilities	212	287	421	535	588	712	670	703	707	703
Accounts Payable	14	13	16	24	29	36	34	39	51	46
Long-Term Debt	191	261	394	498	544	659	618	645	644	643
Shareholder's Equity	166	216	210	243	256	348	350	345	332	393
LTD/E Ratio	1.15	1.21	1.88	2.05	2.13	1.90	1.76	1.87	1.94	1.64

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.0%	0.8%	1.3%	1.0%	1.0%	0.9%	2.0%	2.3%	0.6%	1.1%
Return on Equity	0.0%	2.0%	3.6%	3.0%	3.2%	2.8%	6.1%	6.8%	1.8%	3.3%
ROIC	0.0%	0.9%	1.4%	1.0%	1.0%	0.9%	2.1%	2.4%	0.6%	1.2%
Shares Out.	16.8	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0
Revenue/Share	3.31	3.31	3.18	3.64	3.68	3.47	2.95	2.88	2.74	2.71
FCF/Share	0.82	1.31	1.13	1.41	1.43	1.14	0.97	1.15	1.00	1.02

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

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