



Clipper Properties (CLPR)

Updated August 13th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$9	5 Year CAGR Estimate:	13.8%	Market Cap:	\$387.4 M
Fair Value Price:	\$12	5 Year Growth Estimate:	5.2%	Ex-Dividend Date:	08/18/22
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.8%	Dividend Payment Date:	08/26/22
Dividend Yield:	4.2%	5 Year Price Target	\$15	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Clipper Properties is a Real Estate Investment Trust, or REIT, that was founded by the merger of four pre-existing real estate companies. The founders retain about 2/3 of the ownership and votes today as they have never sold a share, thereby causing some corporate governance concerns but also giving investors knowledge that the insiders are heavily incentivized to look out for shareholder interests. Clipper Properties owns commercial (primarily multifamily and office with a small sliver of retail) real estate across New York City.

On August 9th, Clipper Properties released second quarter results. Q2 revenue stood at \$31.9 million, up by 3.9% year-over-year. Income from operations stood at \$7.1 million, up from \$7.0 million in the year-ago period. Net operating income increased to \$17.2 million from \$16.1 million year-over-year. Meanwhile, the trust reported a quarterly net loss of \$3.0 million in Q2 vs \$3.2 million net loss in Q2 2021. Adjusted funds from operations came in at \$5.1 million, up from \$4.1 million in the year-ago period. Finally, notes payable, excluding unamortized loan costs, stood at \$1,163.8 million at June 30, 2022, up from \$1,144.1 million at December 31, 2021. The trust also announced a dividend of \$0.095 per share for the second quarter of 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/S	---	---	---	---	---	\$0.38	\$0.45	\$0.50	\$0.38	\$0.37	\$0.48	\$0.58
NAV/S	---	---	---	---	---	NA	NA	\$18.12	\$15.39	\$12.85	\$13.20	\$17.00
DPS	---	---	---	---	---	\$0.38	\$0.38	\$0.38	\$0.38	\$0.38	\$0.38	\$0.38
Shares¹	---	---	---	---	---	17.8	17.8	17.8	16.1	16.1	16.1	16.1

Over the course of its relatively young history, Clipper Properties has struggled to generate adjusted funds from operation (AFFO) per share growth, though this is largely due to COVID-19 headwinds in 2020 that carried over to 2021. Prior to COVID-19 breaking out, AFFO per share had increased from \$0.38 in 2017 to \$0.50 in 2019, reflecting impressive 14.7% annualized growth over a two-year period.

COVID-19 also decimated Clipper Properties' net asset value (NAV) per share as the appraised value of commercial real estate in New York City plummeted due to falling demand. We expect this to bounce back significantly over the next half decade as COVID-19 headwinds lift and New York City regains much of its pre-COVID-19 luster as one of the greatest cities in the world. AFFO per share and NAV per share are expected to rebound beginning in 2022 and continue moving forward. As a result, we project 5.2% annualized NAV per share growth over the next half decade.

Given that the dividend was barely covered by cash flows in 2020 and 2021 and that shares currently trade at a steep discount to NAV, we do not expect management to raise the dividend for the foreseeable future. Instead, they will likely use any extra cash flows for strengthening the balance sheet and other equity purposes given that the REIT's cost of capital is very high right now.

¹ 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/NAV	---	---	---	---	---	NA	NA	0.72	0.45	0.77	0.68	0.90
Avg. Yld.	---	---	---	---	---	3.8%	2.0%	2.9%	5.6%	3.8%	4.2%	2.5%

Clipper Properties has not traded at a premium to NAV in its recent history, has a concentrated ownership structure that renders the investing public powerless, and is entirely concentrated in New York City which continues to face headwinds. Therefore, we believe the shares should trade at a slight discount to NAV and assign it a fair value multiple of 0.9. Given that shares currently trade at just 68% of NAV, we expect the REIT to enjoy very strong multiple expansion as a boost to total returns for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	100%	84%	76%	100%	103%	79.2%	66%

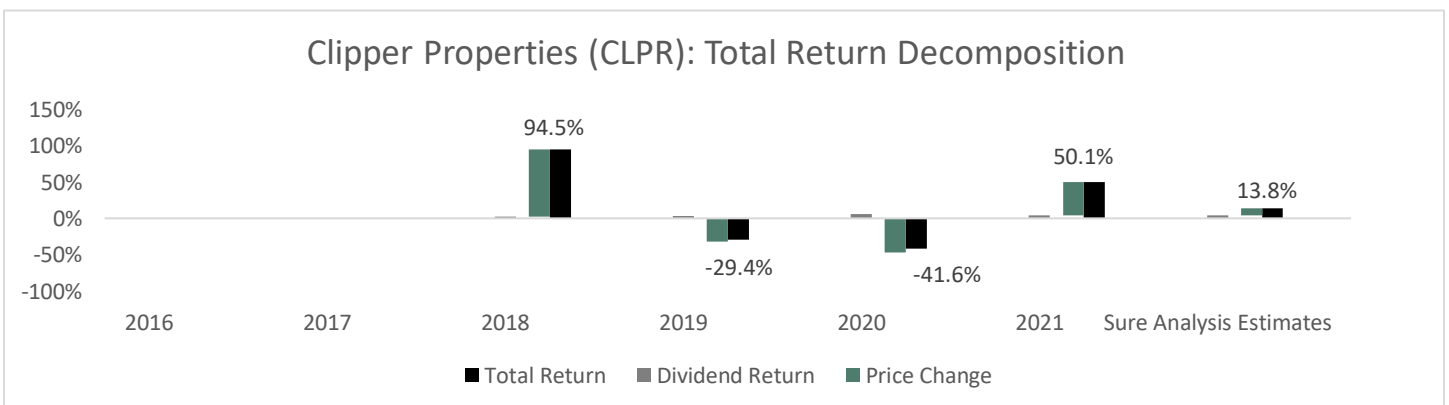
Clipper Properties looks attractive at first glance due to owning a portfolio of quality multifamily and office real estate in one of the world's greatest cities. However, it also has several risks to its investment thesis that investors should be aware of. First and foremost, the concentration in New York City brings substantial geographic, political, and COVID-19 headwind risk to the table. Furthermore, office and retail real estate are under threat from the accelerating work from home and ecommerce trends. Last, but not least, a sizable percentage of its portfolio faces occupancy and/or rent stabilization issues, though this is improving as COVID-19 headwinds continue to subside.

Investors should keep in mind that the cash flow will likely take a hit during a recession and that Clipper Properties' portfolio is quite small compared to other REITs, so it faces asset concentration risk in addition to geographic concentration risk.

Final Thoughts & Recommendation

Clipper Properties is essentially a deep value investment opportunity for people who are bullish on New York City's prospects for recovering from COVID-19 headwinds and regaining much of its former luster. In addition, investors should have confidence in management to be prudent managers of their capital as insiders completely control the company's voting power and must exercise skill in handling a highly concentrated and partially troubled portfolio of assets. As a result, while Clipper Properties earns a Buy rating from us based on valuation and a 13.8% annualized total return proposition, investors should view it as a moderate risk investment.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue			48	85	93	104	110	116	123	123
Gross Profit			22	46	50	56	60	62	65	63
Gross Margin			45.1%	54.8%	53.6%	54.1%	54.9%	53.6%	52.6%	51.6%
SG&A Exp.			2	5	8	10	10	9	10	11
D&A Exp.			3	10	12	14	15	18	23	25
Operating Profit			15	29	26	30	33	33	31	27
Operating Margin			30.8%	33.8%	28.1%	28.4%	29.6%	28.8%	25.5%	22.0%
Net Profit			5	(5)	(4)	(2)	(4)	(2)	(5)	(8)
Net Margin			11.0%	-6.0%	-4.0%	-2.3%	-3.3%	-1.4%	-4.0%	-6.2%
Free Cash Flow			7	9	9	13	22	24	16	11

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets			767	881	905	1,052	1,101	1,166	1,208	1,234
Cash & Equivalents			9	125	38	8	37	43	72	35
Accounts Receivable			7	4	7	9	6	8	13	18
Goodwill & Int. Ass.			7	5	14	12	10	8	7	7
Total Liabilities			730	735	779	866	940	1,024	1,104	1,164
Long-Term Debt			708	713	754	844	914	998	1,079	1,131
Shareholder's Equity			37	44	38	75	65	57	39	27
LTD/E Ratio			19.04	16.10	19.75	11.27	14.02	17.44	27.35	42.66

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets				-0.6%	-0.4%	-0.2%	-0.3%	-0.1%	-0.4%	-0.6%
Return on Equity				-12.4%	-9.1%	-4.2%	-5.2%	-2.7%	-10.1%	-23.0%
ROIC				-0.6%	-0.4%	-0.2%	-0.3%	-0.2%	-0.4%	-0.6%
Shares Out.			---	---	---	17.8	17.8	17.8	16.1	16.1
Revenue/Share			2.59	4.59	5.05	6.11	6.18	6.52	6.97	7.64
FCF/Share			0.41	0.51	0.51	0.77	1.26	1.33	0.91	0.67

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

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