



# Generation Income Properties, Inc. (GIPR)

Updated August 21<sup>st</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$5.87	<b>5 Year CAGR Estimate:</b>	-0.4%	<b>Market Cap:</b>	\$13.2 M
<b>Fair Value Price:</b>	\$4.00	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	09/14/2022
<b>% Fair Value:</b>	147%	<b>5 Year Valuation Multiple Estimate:</b>	-7.4%	<b>Dividend Payment Date:</b>	09/30/2022
<b>Dividend Yield:</b>	11.0%	<b>5 Year Price Target</b>	\$4.00	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Sell

## Overview & Current Events

Generation Income Properties, Inc. is an internally managed real estate investment trust (REIT) focused on acquiring and managing income-producing retail, office, and industrial properties. As of June 30<sup>th</sup>, 2022, the company's asset base portfolio included 13 properties, comprising one industrial, seven retail (including one medical-retail), and five office properties, which are net leased to high-quality tenants in major markets throughout the United States. These properties, along with a 36.8% tenancy in common interest in a single tenant retail building (approximately 15,300 square feet) leased to La-Z-Boy Company, feature 338,142 leasable square feet and an annualized base rent of \$5.3 million. Generation Income Properties was founded in 2015, has only three employees, and trades at a market cap of just \$13.2 million. The trust generated \$3.9 million in rental revenues last year and is based in Tampa, Florida.

On August 12<sup>th</sup>, 2022, Generation Income Properties reported its Q2 results for the period ending June 30<sup>th</sup>, 2022. Total revenues from operations came in at \$1.4 million as compared to \$988 thousand in the prior-year period. This represents a year-over-year increase of 41.7%, which was driven primarily by the acquisition of properties the company executed over the past four quarters. Operating expenses, including G&A, for the same periods were \$2.0 million and \$1.3 million, respectively. These changes in operating expenses were driven primarily by increases in G&A expenses, recoverable expenses and depreciation/amortization from recent acquisitions, and compensation costs.

Core AFFO came in at \$36 thousand, or \$0.02 per share, lower from last year's \$107.9 thousand or \$0.10 per share. At the end of the quarter, 100% of the company's portfolio was leased, with all rents due collected. Based on the company's current portfolio composition, we forecast an AFFO/share power of around \$0.25 for the fiscal year 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>AFFO/share</b>	---	---	---	---	---	---	---	(\$0.64)	\$0.33	\$0.15	<b>\$0.25</b>	<b>\$0.25</b>
<b>DPS</b>	---	---	---	---	---	---	---	\$0.11	\$0.18	\$0.16	<b>\$0.65</b>	<b>\$0.21</b>
<b>Shares<sup>1</sup></b>	---	---	---	---	---	---	---	503.9	532.2	1067.0	<b>2255.0</b>	<b>3000</b>

AFFO/share in both 2020 and 2021 is mostly not meaningful, as the company underwent an acquisition spree. With different leases starting contributing to the top line at different periods, while a consciously increasing share count changed the denominator constantly, these numbers are not much indicative of the trust's performance. Assuming a stable asset base ahead, we believe the company's portfolio could generate close to \$0.25 in AFFO/share on an annualized basis. On the one hand, some catalysts could boost AFFO/share over time. One such is that 92% (12/13) of portfolio leases are embedded with contractually secured rent escalations (though not disclosed). Accretive acquisitions could also theoretically boost the bottom line. However, we don't expect any AFFO/share growth ahead. With a weighted average remaining lease term of 5.8 years, rents won't be renegotiated at higher base rates for quite some time. In the meantime, higher financing costs could pressure profitability. Further, expensive share issuances for future acquisitions could deteriorate shareholders' equity. This was the case in the recent acquisition spree, with the company over-diluting shareholders relative to the benefits that came with the new properties. Thus, any gains from rent

<sup>1</sup> Share count is in thousands.

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escalations could easily be offset. Since August 2021, the company has switched to paying dividends on a monthly basis. The current annualized rate amounts to \$0.65. Moving forward, we forecast a significant decline in the monthly dividend, as payouts are not covered by any metric possible. The company is currently using cash reserves from its aggressive share issuances to finance the payouts. We have set the DPS CAGR at -20% in our estimates as a result.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/AFFO	---	---	---	---	---	---	---	---	---	---	23.5	16.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	2.2%	11.0%	5.3%

Shares of Generation Income Properties are currently trading at 23.5 times our projected AFFO/share. While this multiple appears elevated, note that AFFO excludes straight line rent, non-cash stock compensation, public company consulting fees, and other variables. Hence, we get a lower-than-standard denominator. Still, we believe shares are expensive and have set our fair multiple at 16. We expect the company's massive yield to soften following dividend cuts.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	53%	108%	259%	85%

With the company currently funding the dividend from its cash reserves, we believe that the current rate of monthly payments is not safe. Deterioration of shareholders' equity on the balance is also possible, as a result. That said, the company does feature some favorable traits. Since its inception, its portfolio has been 100% occupied, with 100% of rent due collected, amid long-term leases and a quality tenant base. Approximately 92% of its portfolio's annualized base rent is currently derived from tenants that have (or whose parent company has) an investment-grade credit rating from a recognized credit rating agency of "BBB-" or better. These include Starbucks, Walgreens, and 7-Eleven amongst others. Leverage remains at relatively reasonable level as well, at 61%. While the company's portfolio could produce robust results during a recession backed by its long-term leases, we believe the company's financing strategy is highly risky.

## Final Thoughts & Recommendation

Generation Income Properties is a brand new REIT that hasn't had enough time to develop an indicative track record. However, based on what we've seen so far, the company employs a risky financing strategy that could threaten shareholders' equity value. While the current dividend yield may appear enticing, especially due to its size and frequency of payments, we don't believe it is sustainable. We also expect valuation headwinds to offset any capital returns. Thus, while it's still early to assess the company fully, the stock could be incapable of delivering positive shareholder value in the medium-term. Thus far, we've been proven correct with shares plummeting since our previous report. Accordingly, shares continue to earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue							0.34	1.73	3.52	3.90
Gross Profit							0.30	1.57	2.81	3.13
Gross Margin							86.8%	90.6%	79.8%	80.3%
SG&A Exp.							0.48	1.15	1.30	1.96
D&A Exp.							0.15	0.67	1.45	1.51
Operating Profit							(0.34)	(0.25)	0.06	(0.34)
Operating Margin							-98.2%	-14.2%	1.6%	-8.6%
Net Profit							(0.46)	(1.51)	(1.83)	(1.24)
Net Margin							-133.5%	-87.1%	-52.0%	-31.9%
Free Cash Flow							(12.04)	(16.92)	(0.02)	(8.46)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets							15.23	40.16	40.68	53.42
Cash & Equivalents							0.64	0.97	0.94	10.59
Accounts Receivable							-	0.07	0.08	0.09
Goodwill & Int. Ass.							0.91	2.65	2.39	2.31
Total Liabilities							10.20	29.52	30.63	30.15
Accounts Payable							0.03	0.08	0.12	0.20
Long-Term Debt							9.71	28.30	29.46	28.97
Shareholder's Equity							2.87	2.43	1.37	13.65
LTD/E Ratio							3.39	11.63	21.50	2.12

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets								-5.4%	-4.5%	-2.6%
Return on Equity								-56.9%	-96.3%	-16.5%
ROIC								-5.6%	-4.7%	-2.7%
Shares Out.								503.9	532.2	1067.0
Revenue/Share							0.65	3.43	6.61	3.65
FCF/Share							(22.91)	(33.58)	(0.03)	(7.93)

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

### Disclaimer

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