CTO Realty Growth (CTO)

Updated November 3rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$384 M
Fair Value Price:	$22	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	12/08/2022
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date[1]:**	12/30/2022
Dividend Yield:	7.5%	**5 Year Price Target**	$25	**Years Of Dividend Growth:**	9
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 2.8 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 $384 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 April 27th, the company announced that a three-for-one stock split was approved. Shareholders at the close of business on June 27th, 2022 received two more shares of CTO Realty Growth for each share held. New shares were distributed on June 30th, 2022. The post-split price was reflected on July 1st, 2022. The primary reason for the split was to improve tradability and accessibility of the common stock.

On October 27th, CTO Realty Growth announced adjusted FFO per common share $0.49 for the quarter, a 36% improvement over the $0.36 earned in the same prior year period. The company also reported a 12% increase in same-property NOI compared to the comparable prior year period.

During the quarter, CTO acquired a grocery-anchored retail property in Atlanta, Georgia for $80.2 million. The trust also sold roughly 1,500 acres of subsurface oil, gas, and mineral rights for $0.7 million.

Leadership increased its 2022 outlook and expects to make acquisitions of roughly $271 million in the fiscal year to purchase income producing assets with a target investment initial cash yield of 7.25%. The trust anticipates AFFO per diluted share of roughly $1.79 to $1.82 for a $1.81 midpoint (up from $1.73 previously). The trust also anticipates ending the year with 18.2 million weighted average diluted shares outstanding.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	---	---	---	---	---	---	$0.80	$0.99	$1.86	$1.45	***$1.80***	***$2.09***
EPS	$0.03	$0.15	$0.37	$0.48	$1.03	$2.49	$1.48	$1.11	$5.56	$1.56	***($0.10)***	***$1.00***
DPS	$0.01	$0.02	$0.02	$0.03	$0.04	$0.06	$0.09	$0.15	$4.63	$1.33	***$1.50***	***$1.66***
Shares	17.4	17.7	17.7	17.7	17.1	16.8	16.2	14.4	14.1	17.7	***18.2***	***20.0***

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 utilized adjusted FFO to measure their financial progress. As a result, our relevant data only goes back so far. We believe

[1] Estimate

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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 per share by around 3.0% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	---	---	---	---	---	25.7	20.7	11.0	12.2	***11.2***	***12.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%	2.1%	5.8%	***7.5%***	***6.6%***

To value CTO today, we utilize the trust's adjusted FFO. The trust's price-to-adjusted FFO of 11.2 times is slightly below our estimated fair value of 12.0 times, resulting in a 1.5% valuation tailwind in the near term. The 7.5% yield today is extremely strong, off the back of the massive dividend increase in 2021.

Safety, Quality, Competitive Advantage, & Recession Resiliency

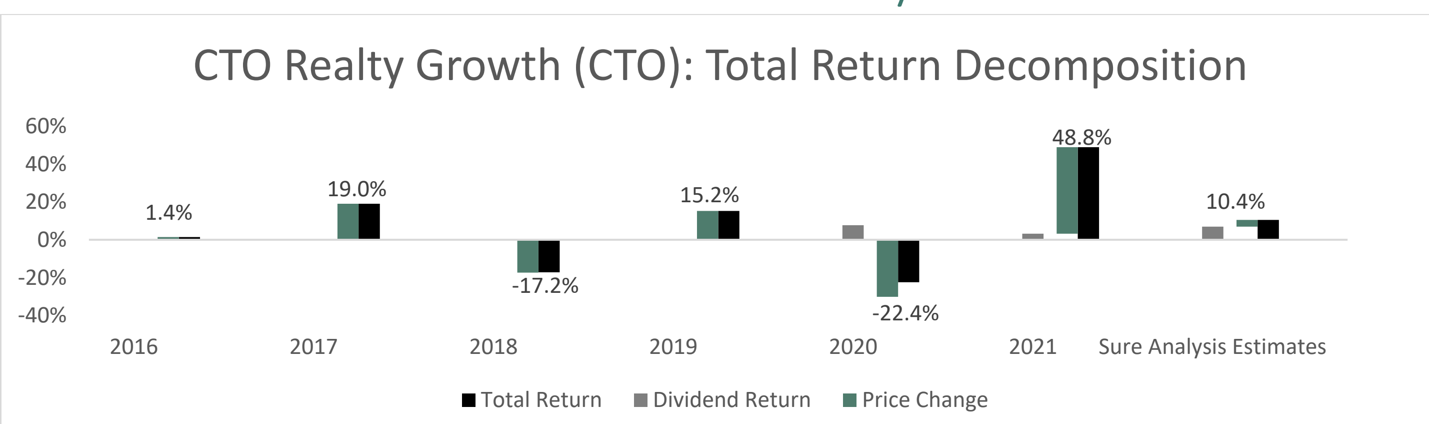
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	44%	14%	6%	6%	4%	2%	6%	13%	83%	85%	***83%***	***79%***

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 nine 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 7% below fair value and we estimate total returns of 10.4%, so we rate shares as a marginal buy.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	16	26	36	43	66	39	44	45	56	70
Gross Profit	9	15	24	29	46	30	35	38	41	48
Gross Margin	57.0%	58.4%	65.2%	68.0%	69.3%	78.4%	79.9%	84.2%	73.0%	68.1%
SG&A Exp.	7	5	7	9	10	10	10	10	10	11
D&A Exp.	2	3	3	5	8	13	16	16	19	21
Operating Profit	1	7	13	15	27	8	9	12	12	16
Operating Margin	3.8%	26.5%	36.1%	35.5%	41.6%	20.0%	21.4%	27.2%	21.2%	23.1%
Net Profit	1	4	6	8	16	42	37	115	79	30
Net Margin	3.7%	14.1%	17.7%	19.4%	24.7%	107.9%	85.1%	255.8%	139.2%	42.6%
Free Cash Flow	2	1	9	23	-28	-37	-62	16	17	28
Income Tax	0	2	4	5	12	-22	6	5	-83	-3

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	185	226	277	404	409	466	556	703	667	733
Cash & Equivalents	1	5	2	4	8	6	2	6	4	9
Accounts Receivable	---	---	---	3	2	3	5	4	7	6
Goodwill & Intang.	5	6	10	20	35	39	44	49	50	101
Total Liabilities	70	106	148	264	260	282	345	418	316	303
Accts Payable	0	1	1	2	2	2	1	1	1	1
Long-Term Debt	29	63	104	167	166	196	248	287	274	278
Shareholder's Equity	114	120	128	135	148	184	212	285	351	430
LTD/E Ratio	0.26	0.53	0.81	1.24	1.12	1.06	1.17	1.01	0.78	0.65

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.3%	1.8%	2.5%	2.5%	4.0%	9.5%	7.3%	18.3%	11.5%	4.3%
Return on Equity	0.5%	3.1%	5.1%	6.3%	11.5%	25.1%	18.8%	46.3%	24.7%	7.7%
ROIC	0.4%	2.3%	3.1%	3.1%	5.2%	12.0%	8.9%	22.3%	13.1%	4.5%
Shares Out.	5.8	5.9	5.9	5.9	5.7	5.6	5.4	4.8	4.7	5.9
Revenue/Share	2.84	4.54	6.23	7.38	11.57	6.93	7.90	8.99	11.98	11.93
FCF/Share	0.35	0.25	1.62	3.91	-4.98	-6.65	-11.14	3.28	3.60	4.68

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