Alpine Income Property Trust, Inc. (PINE)

Updated February 10th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$20.18	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$265.2 M
Fair Value Price:	$17.05	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	03/09/2023[1]
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	03/31/2023
Dividend Yield:	5.5%	**5 Year Price Target**	$20.25	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Alpine Income Property Trust is a real estate trust that owns and operates a high-quality portfolio of commercial net lease properties. Based on Alpine's latest filings, its portfolio consists of 148 net leased retail and office properties located in 106 markets in 34 states. The trust was formed in August of 2019, has no employees, and is externally managed by Alpine Income Property Manager. The manager is owned by the publicly traded trust CTO Realty Growth (CTO), which also owns 14.6% of Alpine's common stock. Alpine Income Property generates around $45.2 million in annual rental revenues and is headquartered in Daytona Beach, Florida.

On February 9th, 2023, Alpine Income Property Trust reported its Q4 and full-year results for the period ending December 31st, 2022. For the quarter, total revenues came in at $11.59 million, 22.4% higher year-over-year following the trust's sustained acquisition spree since its inception. During the quarter, Alpine acquired seven net lease retail properties for a purchase price of $41.7 million, reflecting a weighted average going-in cash cap rate of 7.4%. Following a $198 million straight-line rent adjustment, AFFO grew by a milder 7.4% to $5.8 million. Due to the issuance of common stock to raise further funds to partially assist with its acquisitions, AFFO/share came in flat at $0.41. For the year, AFFO/share reached $1.77, up 11.3% compared to fiscal 2021.

At the end of the quarter, Alpine's Weighted-Average Remaining Lease Term was 7.6 years, and the portfolio was 99.5% occupied. For FY2023, management expects AFFO/share to come out between $1.52 and $1.57. We have utilized the midpoint of this range in our estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO/shr	---	---	---	---	---	---	$0.09	$1.04	$1.59	$1.77	***$1.55***	***$1.84***
DPS	---	---	---	---	---	---	$0.06	$0.82	$1.02	$1.09	***$1.10***	***$1.31***
Shares[2]	---	---	---	---	---	---	7.9	7.6	9.8	11.9	***11.9***	***20.0***

Due to its very recent inception, Alpine Income Property Trust does not have a historical track record to show. However, its financials have been growing at a very rapid pace year-over-year. The trust has achieved nearly 300% accretive portfolio growth since its inception, which is quite impressive. Its current growth drivers include its acquisition spree, which takes place at attractive low-cost financing (Alpine borrowed $60 million in a 5-year term at just 2.16% in 2022), as well as rent escalations. Currently, around half of its annualized base rent is subject to rent escalations.

However, Alpine's growth in the coming years is set to slow down, as rising rates will result in growing interest expenses in the near-term and more expensive refinances in the medium-term. At the end of fiscal 2022, Alpine's weighted average cost of debt stood at 3.98%, up from 2.10% at the end of fiscal 2021. With interest expenses comprising 1/5 of operating cash flows, such massive increases in the cost of debt can have a great effect on its profitability margins. This is why the company has guided for lower AFFO/share in fiscal 2023. We forecast a medium-term growth of 3.5% for both AFFO/share and the dividend-per-share from a lower AFFO/share base of $1.55.

[1] Estimated dates based on past dividend dates.

[2] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	---	---	---	---	---	---	---	14.4	11.9	10.0	***13.0***	***11.0***
Avg. Yld.	---	---	---	---	---	---	---	5.6%	5.6%	6.2%	***5.5%***	***6.5%***

Alpine's valuation multiple currently stands at 13X the midpoint of management's expected AFFO/share. We believe this is a somewhat rich multiple that doesn't fully reflect the impact of rising interest rates on Alpine's profitability. We have lowered our fair multiple further from 11.5X to 11.0X, which we believe better reflects Alpine's growth prospects. The dividend yield is notable, and we expect it to grow more substantial if the stock's valuation indeed contracts.

Safety, Quality, Competitive Advantage, & Recession Resiliency

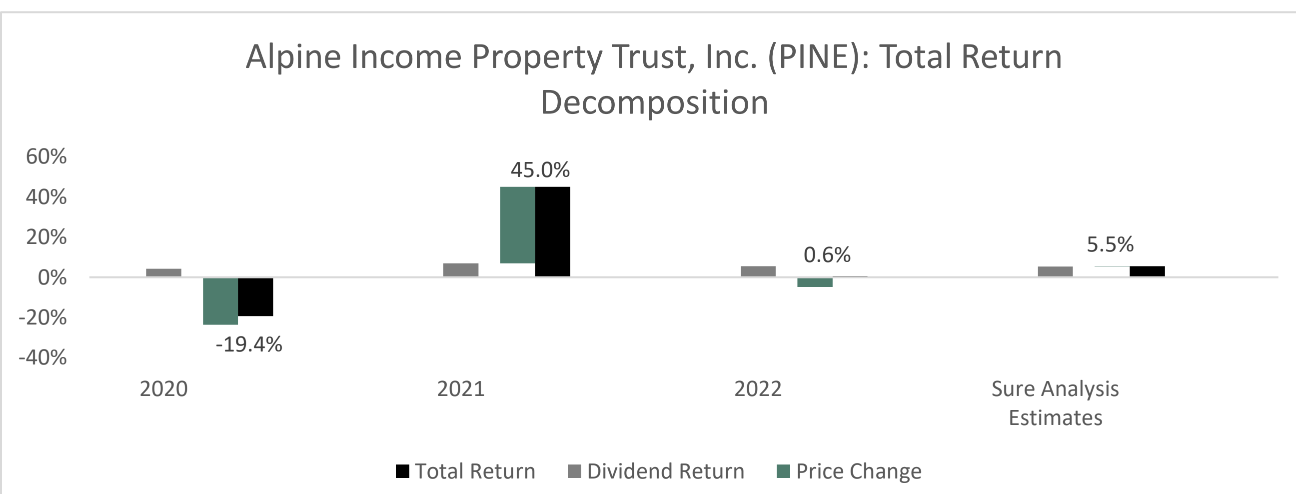
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	64%	79%	64%	62%	***71%***	***71%***

We consider Alpine's dividend to be relatively safe considering the comfortable payout ratio and the trust's latest per-share hike. Alpine's qualities include fantastic cash flow visibility backed by multi-year leases, contractually embedded rent hikes that counter inflation, low-cost financing, and an experienced management team backed by the much larger REIT, CTO. Further, no State and no tenant account for more than 17% and 11% of total rental revenues. Additionally, a large chunk of the trust's tenants comprises investment-grade firms, with Walgreens, Academy Sports + Outdoors, and Walmart accounting for 11%, 5%, and 5% of total rental revenues, respectively. Finally, few companies can claim near 100% occupancy levels. For these reasons, we believe the trust would perform resiliently during a recession, but note that it has not been tested under a prolonged one. We don't note any particular competitive advantages apart from the combination of qualities mentioned above as a whole distinguishing Alpine amongst its peers.

Final Thoughts & Recommendation

Overall, Alpine Income Property Trust seems like a high-quality REIT with excellent characteristics despite its short trading history. That said, we expect the company's growth to slow down materially from the rates it achieved during a low-rates environment. We estimate annualized returns of around 5.5% through 2028, powered by the 5.5% dividend yield, AFFO/share growth of 3.5%, and the possibility for a 3.3% annual valuation headwind. The stock earns a hold rating.

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	---	---	---	---	---	8	12	---	19	30
Gross Profit	---	---	---	---	---	7	10	---	17	26
Gross Margin	---	---	---	---	---	82.6%	86.2%	---	88.0%	86.7%
SG&A Exp.	---	---	---	---	---	1	1	---	5	5
D&A Exp.	---	---	---	---	---	3	5	---	10	16
Operating Profit	---	---	---	---	---	3	4	---	2	5.5
Operating Margin	---	---	---	---	---	36.7%	34.3%	---	12.1%	18.3%
Net Profit	---	---	---	---	---	3	4	---	1	10
Net Margin	---	---	---	---	---	33.3%	34.3%	---	5.1%	33.3%
Free Cash Flow	---	---	---	---	---	5	6	---	9	17
Income Tax	---	---	---	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	---	---	---	126	127	164	262	506
Cash & Equivalents	---	---	---	---	---	0	0	12	2	9
Goodwill & Int. Ass.	---	---	---	---	---	12	11	22	37	59
Total Liabilities	---	---	---	---	---	6	2	3	112	278
Accounts Payable	---	---	---	---	---	---	---	0	0	0
Long-Term Debt	---	---	---	---	---	-	-		106	268
Shareholder's Equity	---	---	---	---	---	120	124	138	127	197
LTD/E Ratio	---	---	---	---	---	---	---	---	0.84	1.4

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	---	---	---	3.2%	---	0.5%	2.6%
Return on Equity	---	---	---	---	---	---	3.3%	---	0.7%	6.2%
ROIC	---	---	---	---	---	---	3.3%	---	0.5%	2.7%
Shares Out.	---	---	---	---	---	---		7.9	7.6	11
Revenue/Share	---	---	---	---	---	0.93	1.28	---	2.18	2.68
FCF/Share	---	---	---	---	---	0.58	0.62	---	1.07	1.52

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