Alpine Income Property Trust, Inc. (PINE)

Updated July 21st, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$16.75	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$255.5 M
Fair Value Price:	$16.94	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	09/08/2023[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	09/28/2023
Dividend Yield:	6.6%	**5 Year Price Target**	$20.12	**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 143 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 14.8% 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 July 20th, 2023, Alpine Income Property Trust reported its Q2 results for the period ending June 30th, 2023. For the quarter, total revenues came in at $11.4 million, 1.4% higher year-over-year, with recent property disposals pulling back growth. That said, the company resumed its portfolio expansion strategy during the quarter, acquiring nine retail properties for $60.5 million, while selling only four retail properties for $22.0 million.

Despite the growth in revenues, AFFO declined by 7.9% to $5.8 million due to higher operating and interest expenses. Further, due to the issuance of common stock utilized by the company to raise funds to partially assist with its acquisitions in recent quarters, AFFO/share landed at $0.37, declining by an even more significant 21.3% year-over-year.

At the end of the quarter, Alpine's Weighted-Average Remaining Lease Term was 7.5 years, and the portfolio was 99.5% occupied. For FY2023, management revised Alpine's AFFO/share guidance marginally lower, expecting it to range from $1.52 to $1.55 (down from $1.52 to $1.57). We have utilized the midpoint of the updated 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	***$1.54***	***$1.83***
DPS	---	---	---	---	---	---	$0.06	$0.82	$1.02	$1.09	***$1.10***	***$1.31***
Shares[2]	---	---	---	---	---	---	7.9	7.6	9.8	11.9	***15.8***	***25.0***

Due to its very recent inception, Alpine Income Property Trust does not have a historical track record to show. However, its financials have grown at a very rapid pace since its inception. The trust has achieved nearly 300% accretive portfolio growth since its inception, which is quite impressive. Its current growth drivers include property acquisitions, 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 has slowed down recently, as rising rates have resulted in growing interest expenses and will also result in more expensive refinances in the medium-term. At the end of Q2, Alpine's weighted average cost of debt stood at 3.36%, up from 2.10% at the end of fiscal 2021. With interest expenses comprising over 40% 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 $1.54.

[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	***10.9***	***11.0***
Avg. Yld.	---	---	---	---	---	---	---	5.6%	5.6%	6.2%	***6.6%***	***6.5%***

Alpine's valuation multiple currently stands at 10.9X the midpoint of management's expected AFFO/share. The stock's multiple has corrected substantially to take into account the impact of rising interest rates on Alpine's profitability. At their current levels, we believe that shares are more or less fairly valued. Hence, we maintain our fair price-to-AFFO ratio of 11, which we believe accurately reflects Alpine's prospects. At 6.6%, Alpine's dividend yield is on the high end of the stock's historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

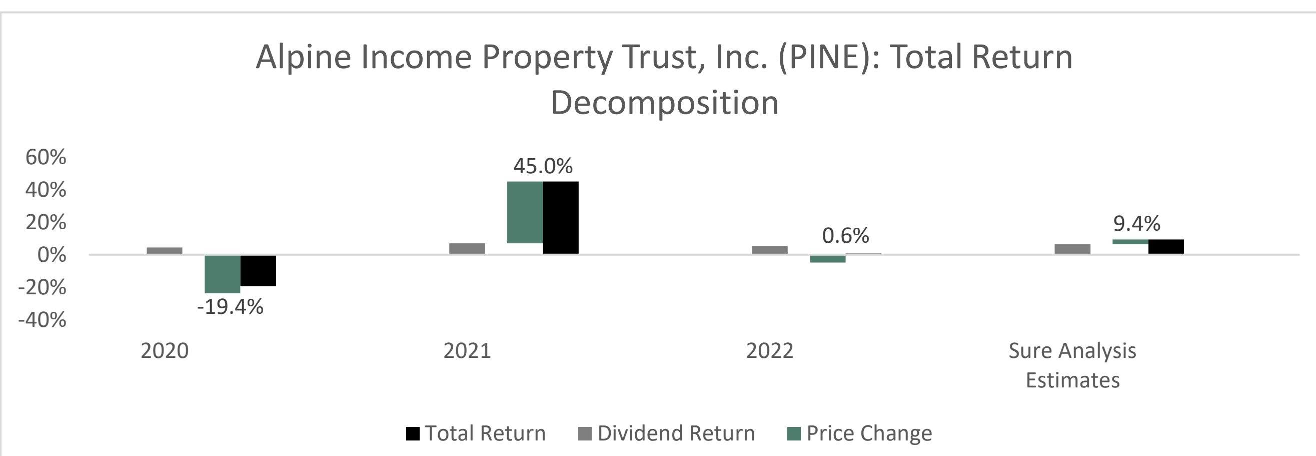
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	64%	79%	64%	62%	***71%***	***71%***

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 12% of total rental revenues each. Additionally, a large chunk of the trust's tenants comprises investment-grade firms, with Walgreens, Lowe's, and DICK'S Sporting Goods accounting for 12%, 9%, and 9% of total rental revenues, respectively. Finally, few companies can claim near 100% occupancy levels. For these reasons, we believe revenues-wise, 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 that distinguish Alpine from 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 profitability to sink this year and its growth to slow down notably from the rates it achieved during a low-rates environment. We estimate annualized returns of around 9.4% through 2028, powered by the 6.6% dividend yield, AFFO/share growth of 3.5%, and relatively stable valuation assumptions. The stock earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	---	8	12	---	19	30	45
Gross Profit	---	---	---	---	7	10	---	17	26	40
Gross Margin	---	---	---	---	82.6%	86.2%	---	88.0%	86.7%	88.9%
SG&A Exp.	---	---	---	---	1	1	---	5	5	6
D&A Exp.	---	---	---	---	3	5	---	10	16	23
Operating Profit	---	---	---	---	3	4	---	2	5.5	10.4
Operating Margin	---	---	---	---	36.7%	34.3%	---	12.1%	18.3%	23.1%
Net Profit	---	---	---	---	3	4	---	1	10	29.7
Net Margin	---	---	---	---	33.3%	34.3%	---	5.1%	33.3%	66%
Free Cash Flow	---	---	---	---	5	6	---	9	17	24.7
Income Tax	---	---	---	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	126	127	164	262	506	573
Cash & Equivalents	---	---	---	---	0	0	12	2	9	9
Goodwill & Int. Ass.	---	---	---	---	12	11	22	37	59	60
Total Liabilities	---	---	---	---	6	2	3	112	278	278
Accounts Payable	---	---	---	---	---	---	0	0	0	0
Long-Term Debt	---	---	---	---	-	-		106	268	267
Shareholder's Equity	---	---	---	---	120	124	138	127	197	262
LTD/E Ratio	---	---	---	---	---	---	---	0.84	1.4	1.02

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	3.2%	---	0.5%	2.6%	5.5%
Return on Equity	---	---	---	---	---	3.3%	---	0.7%	6.2%	13.0%
ROIC	---	---	---	---	---	3.3%	---	0.5%	2.7%	5.6%
Shares Out.	---	---	---	---	---		7.9	7.6	11	13.68
Revenue/Share	---	---	---	---	0.93	1.28	---	2.18	2.68	3.30
FCF/Share	---	---	---	---	0.58	0.62	---	1.07	1.52	1.80

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