CTO Realty Growth (CTO)

Updated October 27th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	14.8%	**Market Cap:**	$358 M
Fair Value Price:	$19	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	12/09/2023
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.3%	**Dividend Payment Date[1]:**	12/30/2023
Dividend Yield:	9.3%	**5 Year Price Target**	$24	**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 4.1 million square feet within the United States. CTO also owns a significant 15% 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 $358 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 became an REIT, Consolidated Tomoka Land Co. changed its name to CTO Realty Growth, Inc, a name that aligns with the future of CTO and acknowledges its 110-year history.

On April 27th,2022, 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 26th, 2023, CTO Realty Growth announced adjusted FFO per common share of $0.48 for the third quarter 2023, a 2% decrease over the $0.49 earned in Q3 2022. The company also reported a 4.5% decrease in same-property NOI compared to the prior year period.

During the third quarter, CTO acquired four retail properties and one land parcel for $80 million at a weighted average going-in cash yield of 7.7%. The properties totaled 470.6K square feet. CTO sold two retail properties for $20.9 million which had an exit cap rate of 6.9%, resulting in a $2.5 million gain. The trust also sold roughly 465 acres of subsurface oil, gas, and mineral rights for $0.6 million.

Leadership updated its 2023 outlook and expects to make acquisitions of $95 million to $100 million in the fiscal year to purchase income producing assets with a target investment initial cash yield of 7.7%. The trust anticipates AFFO per diluted share of $1.72 to $1.76 for a $1.74 midpoint (up from $1.67 previously). The trust also anticipates ending the year with 22.5 million weighted average diluted shares outstanding.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	---	---	---	---	---	$0.80	$0.99	$1.86	$1.45	$1.83	***$1.74***	***$2.22***
DPS	$0.02	$0.02	$0.03	$0.04	$0.06	$0.09	$0.15	$4.63	$1.33	$1.49	***$1.52***	***$1.68***
Shares	17.7	17.7	17.7	17.1	16.8	16.2	14.4	14.1	17.7	19.9	***22.5***	***30.0***

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

[1] Estimate

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.

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

CTO can increase its AFFO per share by 5.0% annually going forward. It will drive earnings growth 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. Its 15% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	---	---	---	---	---	25.7	20.7	11.0	12.2	11.2	***9.4***	***11.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%	2.1%	5.8%	6.7%	***9.3%***	***6.9%***

To value CTO today, we utilize the trust's adjusted FFO. The trust's price-to-adjusted FFO of 9.4 times is below our estimated fair value of 11.0 times, implying a 3.3% valuation tailwind in the near term. The 9.3% yield today is extremely strong, off the back of the massive dividend increase in 2021 as well as the lower share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

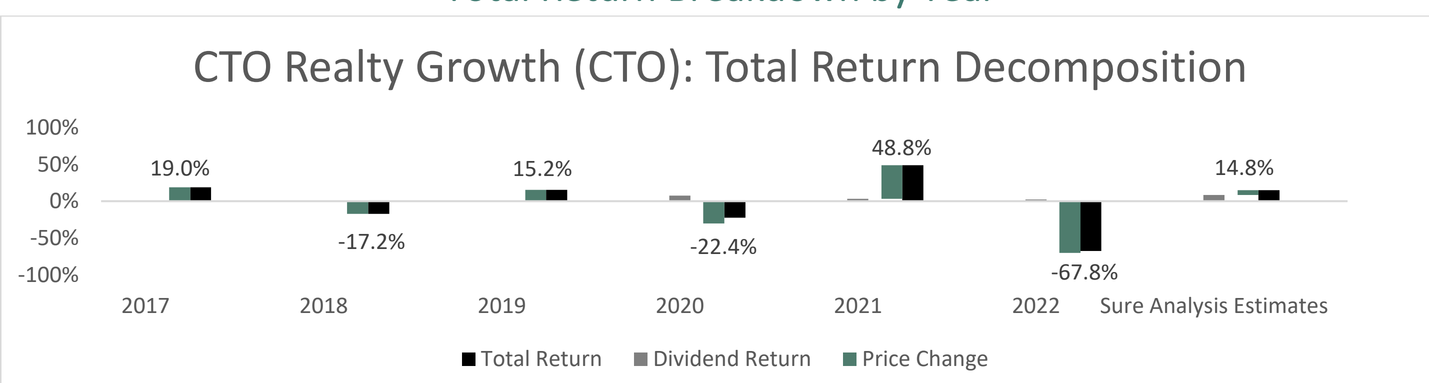
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	14%	6%	6%	4%	2%	6%	13%	83%	92%	81%	***87%***	***76%***

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 its 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. The trust has also now been 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 15% below fair value and we estimate total returns of 14.8%, so we rate CTO as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	26	36	43	66	39	44	45	56	70	82
Gross Profit	15	24	29	46	30	35	38	41	48	59
Gross Margin	58.4%	65.2%	68.0%	69.3%	78.4%	79.9%	84.2%	73.0%	68.1%	72.2%
SG&A Exp.	5	7	9	10	10	10	10	10	11	13
D&A Exp.	3	3	5	8	13	16	16	19	21	29
Operating Profit	7	13	15	27	8	9	12	12	16	18
Operating Margin	26.5%	36.1%	35.5%	41.6%	20.0%	21.4%	27.2%	21.2%	23.1%	21.5%
Net Profit	4	6	8	16	42	37	115	79	30	3
Net Margin	14.1%	17.7%	19.4%	24.7%	107.9%	85.1%	255.8%	139.2%	42.6%	3.8%
Free Cash Flow	1	9	23	-28	-37	-62	16	17	28	56
Income Tax	2	4	5	12	-22	6	5	-83	-3	-3

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	226	277	404	409	466	556	703	667	733	987
Cash & Equivalents	5	2	4	8	6	2	6	4	9	19
Accounts Receivable	---	---	3	2	3	5	4	7	6	8
Goodwill & Intang.	6	10	20	35	39	44	49	50	101	117
Total Liabilities	106	148	264	260	282	345	418	316	303	482
Accts Payable	1	1	2	2	2	1	1	1	1	3
Long-Term Debt	63	104	167	166	196	248	287	274	278	446
Shareholder's Equity	120	128	135	148	184	212	285	351	430	505
LTD/E Ratio	0.53	0.81	1.24	1.12	1.06	1.17	1.01	0.78	0.65	0.88

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.8%	2.5%	2.5%	4.0%	9.5%	7.3%	18.3%	11.5%	4.3%	0.4%
Return on Equity	3.1%	5.1%	6.3%	11.5%	25.1%	18.8%	46.3%	24.7%	7.7%	0.7%
ROIC	2.3%	3.1%	3.1%	5.2%	12.0%	8.9%	22.3%	13.1%	4.5%	0.4%
Shares Out.	5.9	5.9	5.9	5.7	5.6	5.4	4.8	4.7	5.9	18.5
Revenue/Share	4.54	6.23	7.38	11.57	6.93	7.90	8.99	11.98	11.93	4.45
FCF/Share	0.25	1.62	3.91	-4.98	-6.65	-11.14	3.28	3.60	4.68	3.03

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