



Generation Income Properties, Inc. (GIPR)

Updated November 16th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$4.01	5 Year CAGR Estimate:	0.6%	Market Cap:	\$10.5 M
Fair Value Price:	\$2.40	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/14/2023
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.8%	Dividend Payment Date:	12/30/2023
Dividend Yield:	11.7%	5 Year Price Target	\$2.40	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	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 September 30th, 2023, the company's asset base included 26 properties, comprising one industrial, 18 retail (including one medical-retail), and seven 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 \$8.64 million. Generation Income Properties was founded in 2015, has only six employees, and trades with a market cap of just \$10.5 million. The trust generated \$5.43 million in rental revenues last year and is based in Tampa, Florida.

On November 13th, 2023, Generation Income reported its Q3 results for the period ending September 30th, 2023. For the quarter, total revenues from operations came in at \$1.84 million as compared to \$1.47 million in the prior-year period. This represents a year-over-year increase of 25%. Operating expenses, including G&A, came in at \$3.1 million and \$2.0 million, respectively.

Core AFFO came in at a negative \$65.6 thousand, or (\$0.03) per share, compared to roughly \$188.0 thousand, or \$0.14 per share, in the prior-year period. At the end of the quarter, 96% of the company's portfolio was leased, with all rents due collected. We now forecast an AFFO/share power of \$0.30 for the fiscal year 2023. Actual results will be notably weaker.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO/share	---	---	---	---	---	---	(\$0.64)	\$0.33	\$0.15	\$0.18	\$0.30	\$0.30
DPS	---	---	---	---	---	\$0.84	\$0.77	\$0.68	\$0.49	\$0.60	\$0.47	\$0.28
Shares¹	---	---	---	---	---	---	0.5	0.5	1.1	2.3	2.6	3.0

AFFO/share between 2020 and 2022 is mostly not meaningful, as the company underwent an acquisition spree. With different leases starting contributing to the top line at different periods, and a continuously increasing share count changing 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 \$0.30 in AFFO/share on an annualized basis. On the one hand, some catalysts could boost AFFO/share over time. One such is that 96% 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 5.5 years, rents won't be renegotiated at higher base rates for quite some time. In the meantime, rising rates 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 escalations could easily be offset. Since August 2021, the company has switched to paying dividends on a monthly basis. The current

¹ Share count is in millions.

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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annualized rate amounts to \$0.47. Moving forward, we forecast further dividend cuts in the monthly dividend, as payouts are not covered by any possible metric. The company is currently using cash reserves from its aggressive share issuances to finance the payouts. We have set the DPS CAGR at -10% in our estimates as a result.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/AFFO	---	---	---	---	---	---	---	---	---	---	13.4	8.0
Avg. Yld.	---	---	---	---	---	---	---	---	2.2%	2.2%	11.7%	11.5%

Shares of Generation Income Properties are currently trading at 13.4 times our projected AFFO/share. 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. Nevertheless, and despite the stock's recent correction, we still find shares are expensive and have set our fair multiple at 8.0. The massive yield reflects the risks attached to the stock's dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

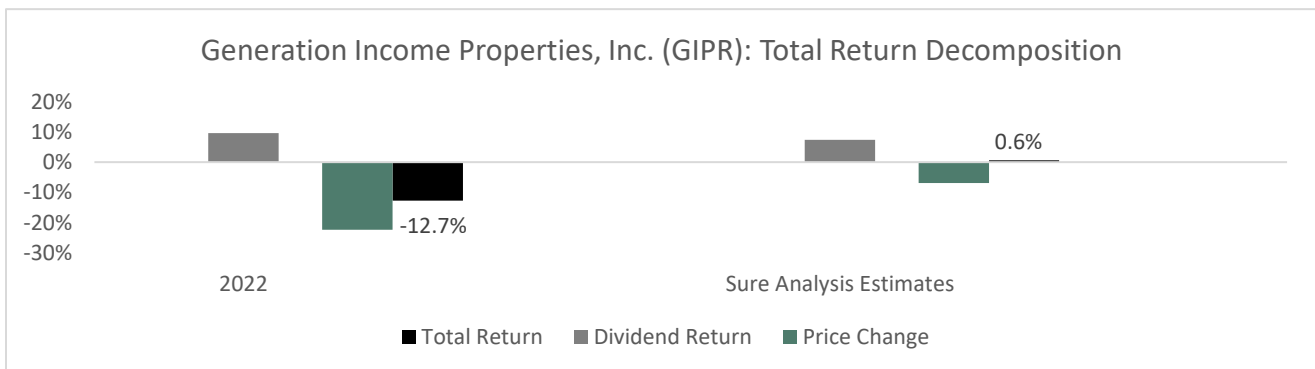
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	206%	327%	333%	156%	92%

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 76% 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 63%. 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, the stock could be incapable of delivering meaningful shareholder value in the medium-term. So far, we've been proven correct with shares plummeting since initiating coverage. Shares continue to earn a sell 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	---	---	---	---	---	0.34	1.73	3.52	3.90	5.4
Gross Profit	---	---	---	---	---	0.30	1.57	2.81	3.13	4.2
Gross Margin	---	---	---	---	---	86.8%	90.6%	79.8%	80.3%	77.8%
SG&A Exp.	---	---	---	---	---	0.48	1.15	1.30	1.96	3.0
D&A Exp.	---	---	---	---	---	0.15	0.67	1.45	1.51	2.0
Operating Profit	---	---	---	---	---	(0.34)	(0.25)	0.06	(0.34)	(0.84)
Operating Margin	---	---	---	---	---	-98.2%	-14.2%	1.6%	-8.6%	-15.6%
Net Profit	---	---	---	---	---	(0.46)	(1.51)	(1.83)	(1.24)	(3.3)
Net Margin	---	---	---	---	---	-133.5%	-87.1%	-52.0%	-31.9%	-61.1%
Free Cash Flow	---	---	---	---	---	(12.04)	(16.92)	(0.02)	(8.46)	(12.3)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	---	15.23	40.16	40.68	53.42	64.21
Cash & Equivalents	---	---	---	---	---	0.64	0.97	0.94	10.59	3.72
Accounts Receivable	---	---	---	---	---	-	0.07	0.08	0.09	0.10
Goodwill & Int. Ass.	---	---	---	---	---	0.91	2.65	2.39	2.31	3.16
Total Liabilities	---	---	---	---	---	10.20	29.52	30.63	30.15	47.28
Accounts Payable	---	---	---	---	---	0.03	0.08	0.12	0.20	0.18
Long-Term Debt	---	---	---	---	---	9.71	28.30	29.46	28.97	36.73
Shareholder's Equity	---	---	---	---	---	2.87	2.43	1.37	13.65	10.69
LTD/E Ratio	---	---	---	---	---	3.39	11.63	21.50	2.12	3.44

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	---	-5.4%	-4.5%	-2.6%	-5.5%
Return on Equity	---	---	---	---	---	---	-56.9%	-96.3%	-16.5%	-26.6%
ROIC	---	---	---	---	---	---	-5.6%	-4.7%	-2.7%	-6.1%
Shares Out.	---	---	---	---	---	---	503.9	532.2	1067.0	2313
Revenue/Share	---	---	---	---	---	0.65	3.43	6.61	3.65	2.35
FCF/Share	---	---	---	---	---	(22.91)	(33.58)	(0.03)	(7.93)	(5.30)

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

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