



Whitestone REIT (WSR)

Updated November 4th, 2023 by Kay Ng

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	6.0%	Market Cap:	\$540M
Fair Value Price:	\$10	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/01/23
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	12/12/23
Dividend Yield:	4.4%	5 Year Price Target	\$12	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Whitestone is a retail REIT that owns about 56 properties with about 5.0 million square feet of gross leasable area primarily in top U.S. markets such as Texas and Arizona. Its tenant base is very diversified consisting of 1,455 tenants with no single tenant exceeding 2.2% of total revenue. Its strategy is to prioritize renting to strong tenants and service-oriented businesses, including grocery, restaurant, health and fitness, financial services, logistics services, education and entertainment, etc. in neighborhoods with high disposable income. Whitestone was founded in 1998 and is headquartered in Houston, Texas.

Whitestone reported its third-quarter 2023 results on 10/31/23 during which it witnessed an occupancy rate of 92.7% versus 92.5% in Q3 2022. For the quarter, revenue growth was 4.9% to \$37.1 million versus Q3 2022. Funds from operations per share ("FFOPS") dropped 4.2% to \$0.23. The decline was primarily from higher litigation and interest expenses that was partially offset by higher property net operating income ("NOI"). Same-store net operating income ("SSNOI") rose 4.9% to \$23.2 million. As well, rental rate growth was 24.4%, up from 19.2% a year ago, driven by a jump in rental rate growth in new leases of 23.6% vs. 16.5% a year ago and in renewal leases of 24.6% versus 20.0% a year ago. There were 29 new leases and 58 renewal leases in the quarter.

Year to date, revenue rose 4.7% to \$109.4 million, while FFOPS fell 16% to \$0.67 year over year. Whitestone maintained its 2023 guidance: SSNOI growth of 2.5%-4.5% and FFOPS of \$0.90-0.94. It forecasts an ending occupancy of about 94%. And it anticipates potential bad debt of 0.75%-1.50% of revenue versus 0.83% in 2022. Therefore, we maintain our 2023 FFOPS estimate at \$0.92, the midpoint of management's guidance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFOPS	\$0.79	\$0.96	\$1.04	\$0.93	\$0.95	\$0.97	\$0.90	\$0.83	\$0.86	\$1.03	\$0.92	\$1.07
DPS	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$0.42	\$0.43	\$0.48	\$0.48	\$0.64
Shares¹	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0	50.0	50.6	67.8

Since Whitestone began reporting FFO, it has seen minimal growth in its FFOPS. This is not a result of decreased FFO but instead an increase in shares outstanding. Between 2016 and 2022, Whitestone issued more than 20 million shares, primarily to fund acquisitions. In part due to that share dilution, there was no dividend growth from 2016 to 2019, and a dividend cut occurred during the pandemic. In February 2021 and 2022, the REIT declared dividend increases. However, it did not declare a dividend increase in February 2023. That said, the REIT should have the capacity to improve its dividend in the long run. For now, we use an estimated dividend growth rate of 6% through 2028, which would lead to a sustainable payout ratio of ~60% for a REIT.

Management believes, post-pandemic, investments in acquisitions, re-development, and development projects can drive returns of at least 10%. The continuation of SSNOI growth since Q1 2021 is a good sign. We would like to see it stay that way. For now, we estimate a FFOPS growth rate of 3% through 2028 on a long-term recovery path. We would improve our estimates if we see the REITs' investments paying off.

¹Shares 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.



Whitestone REIT (WSR)

Updated November 4th, 2023 by Kay Ng

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	16.6	15.8	11.5	15.5	15.2	12.9	14.6	9.2	9.6	10.7	11.8	11.0
Avg. Yld.	--	7.5%	9.5%	7.9%	7.9%	9.3%	8.7%	5.5%	4.5%	4.2%	4.4%	5.5%

From 2018 to 2022, Whitestone traded at a price to funds from operations multiple (P/FFO) of 11.4. In a rising interest rate environment, REIT valuations have been pressured. So, we now target a fair P/FFO of 11.0. The stock appears to be a little overpriced.

Safety, Quality, Competitive Advantage, & Recession Resiliency

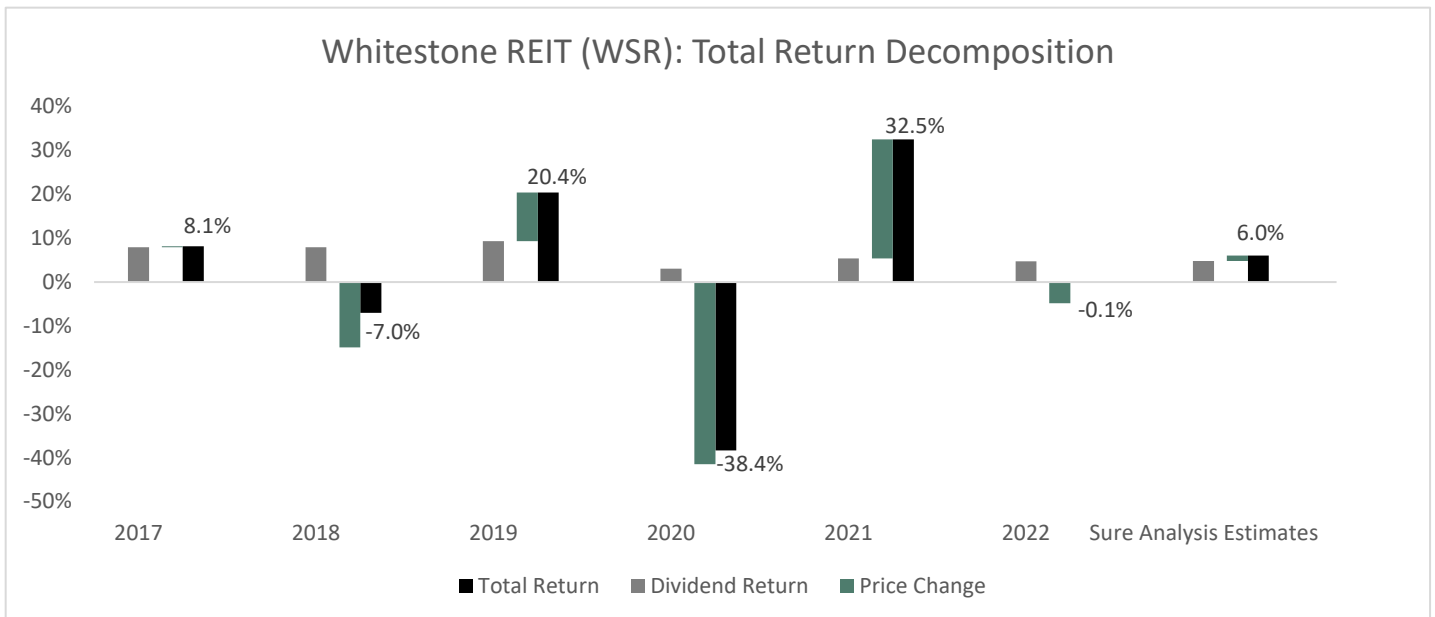
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	144%	119%	110%	123%	120%	118%	127%	51%	50%	47%	52%	60%

Whitestone had some financial troubles during the previous recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. Whitestone cut its dividend by 63% in 2020. It looked like it was ready to steadily increase its dividend to the pre-pandemic levels starting with a cautious increase of 2.4% in February 2021 followed by another dividend hike in February 2022. Currently, the payout ratio of about 50% is sustainable. However, the REIT did not declare a dividend increase in February 2023. At the end of Q3 2023, Whitestone had a debt-to-asset ratio of 61% and debt-to-equity ratio of 1.58 times. At the end of the quarter, the REIT had \$2.98 million in cash and cash equivalents. Moreover, its payout ratio is much more sustainable than pre-pandemic levels because of a lower dividend.

Final Thoughts & Recommendation

Whitestone has an expected annualized total return of 6.0% over the next five years, coming from a 4.4% dividend yield, 3% growth, and -1.5% valuation compression. Concerns surrounding this REIT include rising interest rates, and what is its normal growth rate in the normalized environment post-pandemic. We rate the stock as a "hold".

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

¹ Shares 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.



Whitestone REIT (WSR)

Updated November 4th, 2023 by Kay Ng

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	60	72	93	104	126	120	119	118	125	139
Gross Profit	38	47	62	70	84	82	82	79	86	96
Gross Margin	62.5%	65.3%	66.5%	67.4%	66.6%	68.8%	69.1%	67.3%	68.6%	68.9%
SG&A Exp.	11	15	20	24	24	23	22	21	23	18
D&A Exp.	13	16	20	22	27	26	27	28	29	32
Operating Profit	14	16	22	24	33	33	34	30	34	46
Operating Margin	22.8%	22.4%	23.6%	22.9%	25.9%	27.9%	28.5%	25.2%	27.5%	33.2%
Net Profit	4	8	7	8	8	21	24	6	12	35
Net Margin	6.3%	10.5%	7.2%	7.6%	6.6%	17.9%	19.9%	5.1%	9.6%	25.3%
Free Cash Flow	24	26	36	41	41	40	48	43	47	44
Income Tax	0	0	0	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	508	634	782	855	1070	1029	1056	1045	1102	1103
Cash & Equivalents	6	4	3	4	5	14	16	26	16	6
Accounts Receivable	10	12	15	20	21	21	23	23	22	25
Total Liabilities	287	421	535	588	712	670	703	707	703	678
Accounts Payable	13	16	24	29	36	34	39	51	46	36
Long-Term Debt	261	394	498	544	659	618	645	644	643	625
Shareholder's Equity	216	210	243	256	348	350	345	332	393	418
LTD/E Ratio	1.21	1.88	2.05	2.13	1.90	1.76	1.87	1.94	1.64	1.49

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	1.3%	1.0%	1.0%	0.9%	2.0%	2.3%	0.6%	1.1%	3.2%
Return on Equity	2.0%	3.6%	3.0%	3.2%	2.8%	6.1%	6.8%	1.8%	3.3%	8.7%
ROIC	0.9%	1.4%	1.0%	1.0%	0.9%	2.1%	2.4%	0.6%	1.2%	3.4%
Shares Out.	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0	50.0
Revenue/Share	3.31	3.18	3.64	3.68	3.47	2.95	2.88	2.74	2.71	2.79
FCF/Share	1.31	1.13	1.41	1.43	1.14	0.97	1.15	1.00	1.02	0.89

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.