



# Whitestone REIT (WSR)

Updated March 13<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$12	<b>5 Year CAGR Estimate:</b>	6.9%	<b>Market Cap:</b>	\$609M
<b>Fair Value Price:</b>	\$11	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	04/01/24
<b>% Fair Value:</b>	110%	<b>5 Year Valuation Multiple Estimate:</b>	-1.9%	<b>Dividend Payment Date:</b>	04/11/24
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$14	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Whitestone is a retail REIT that owns about 55 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 1,453 tenants with no single tenant exceeding 2.1% of annualized base rental 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 fourth quarter 2023 results on March 6<sup>th</sup>, 2024, during which it witnessed an occupancy rate of 94.2% versus 93.7% in Q4 2022. For the quarter, revenue growth was 7.4% to \$37.5 million versus Q4 2022. Funds from operations per share ("FFOPS") dropped 8.7% to \$0.21. Same-store net operating income ("SSNOI") rose 2.4% to \$24.0 million. Also, rental rate growth was 21.8%, down from 23.5% a year ago, driven by a jump in rental rate growth in new leases of 37.3% vs. 24.3% a year ago, and renewal leases growth of 15.3% versus 23.2% a year ago. There were 44 new leases and 32 renewal leases in the quarter.

For the full year 2023, revenue rose 5.4% to \$147 million, while FFOPS fell 15% to \$0.88 year-over-year. Whitestone introduced its 2024 guidance: SSNOI growth of 2.5%-4.0% and core FFOPS of \$0.98-1.04. It forecasts an ending occupancy of about 94.3%. And it anticipates potential bad debt of 0.60%-1.10% of revenue versus 0.65% in 2023. Therefore, we start the year with our 2024 FFOPS estimate at \$1.01, the midpoint of management's guidance.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFOPS</b>	\$0.96	\$1.04	\$0.93	\$0.95	\$0.97	\$0.90	\$0.83	\$0.86	\$1.03	\$0.88	<b>\$1.01</b>	<b>\$1.29</b>
<b>DPS</b>	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$0.60	\$0.43	\$0.47	\$0.48	<b>\$0.50</b>	<b>\$0.66</b>
<b>Shares<sup>1</sup></b>	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0	50.0	50.8	<b>51.0</b>	<b>51.5</b>

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. Since 2014, Whitestone has issued more than 25 million shares, effectively doubling its share count, 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. While it did not declare a dividend increase in 2023, it resumed increasing the dividend in March 2024. 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 2029, which would lead to a sustainable payout ratio of ~51% for a REIT.

Whitestone's exposure to the high growth sun belt market, as well as its investments in acquisitions, re-development, and development projects will drive future growth. 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 5% through 2029 on a long-term recovery path. We would raise our estimates if we saw the REITs' investments paying off.

<sup>1</sup>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.



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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	15.8	11.5	15.5	15.2	12.9	14.6	9.2	9.6	10.7	11.2	12.1	11.0
Avg. Yld.	7.5%	9.5%	7.9%	7.9%	9.3%	8.7%	5.5%	4.5%	4.2%	4.9%	4.0%	4.7%

From 2019 to 2023, Whitestone traded at a price to funds from operations multiple (P/FFO) of 11.1. 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 overpriced today.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	119%	110%	123%	120%	118%	127%	72%	50%	46%	55%	49%	51%

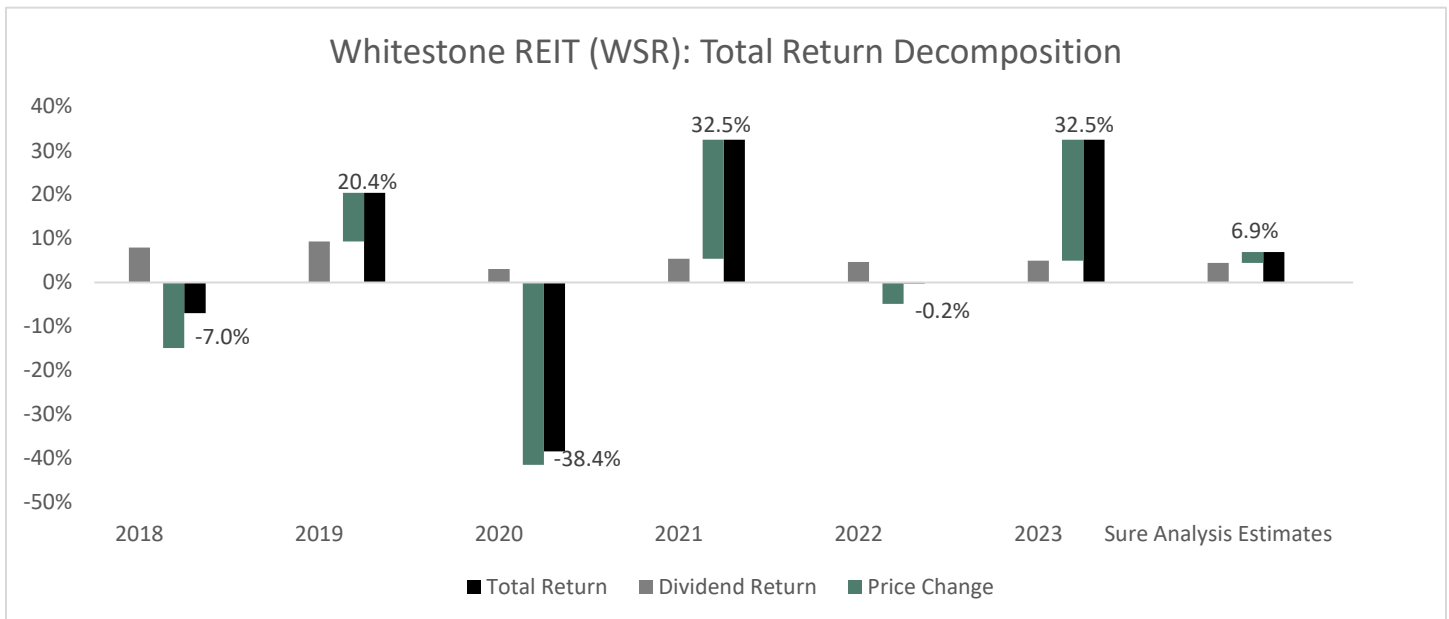
Whitestone had some financial troubles during the previous recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. Whitestone cut its dividend by 63% in 2020. The company is now steadily increasing its dividend, but pre-pandemic levels look a long way off. Currently, the payout ratio of 49% is sustainable.

At the end of Q4 2023, Whitestone had a debt-to-asset ratio of 58% and debt-to-equity ratio of 1.5 times. At the end of the quarter, the REIT had \$4.6 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 6.9% over the next five years, stemming from a 4.0% dividend yield and 5.0% FFOPS growth, partly offset by a -1.9% valuation headwind. Concerns surrounding this REIT include rising interest rates, and what is its normal growth rate in the normalized environment post-pandemic. WSR 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
<b>Revenue</b>	60	72	93	104	126	120	119	118	125	139
<b>Gross Profit</b>	38	47	62	70	84	82	82	79	86	96
<b>Gross Margin</b>	62.5%	65.3%	66.5%	67.4%	66.6%	68.8%	69.1%	67.3%	68.6%	68.9%
<b>SG&amp;A Exp.</b>	11	15	20	24	24	23	22	21	23	18
<b>D&amp;A Exp.</b>	13	16	20	22	27	26	27	28	29	32
<b>Operating Profit</b>	14	16	22	24	33	33	34	30	34	46
<b>Operating Margin</b>	22.8%	22.4%	23.6%	22.9%	25.9%	27.9%	28.5%	25.2%	27.5%	33.2%
<b>Net Profit</b>	4	8	7	8	8	21	24	6	12	35
<b>Net Margin</b>	6.3%	10.5%	7.2%	7.6%	6.6%	17.9%	19.9%	5.1%	9.6%	25.3%
<b>Free Cash Flow</b>	24	26	36	41	41	40	48	43	47	44
<b>Income Tax</b>	0	0	0	0	0	0	0	0	0	0

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	508	634	782	855	1070	1029	1056	1045	1102	1103
<b>Cash &amp; Equivalents</b>	6	4	3	4	5	14	16	26	16	6
<b>Accounts Receivable</b>	10	12	15	20	21	21	23	23	22	25
<b>Total Liabilities</b>	287	421	535	588	712	670	703	707	703	678
<b>Accounts Payable</b>	13	16	24	29	36	34	39	51	46	36
<b>Long-Term Debt</b>	261	394	498	544	659	618	645	644	643	625
<b>Shareholder's Equity</b>	216	210	243	256	348	350	345	332	393	418
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	0.8%	1.3%	1.0%	1.0%	0.9%	2.0%	2.3%	0.6%	1.1%	3.2%
<b>Return on Equity</b>	2.0%	3.6%	3.0%	3.2%	2.8%	6.1%	6.8%	1.8%	3.3%	8.7%
<b>ROIC</b>	0.9%	1.4%	1.0%	1.0%	0.9%	2.1%	2.4%	0.6%	1.2%	3.4%
<b>Shares Out.</b>	21.9	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0	50.0
<b>Revenue/Share</b>	3.31	3.18	3.64	3.68	3.47	2.95	2.88	2.74	2.71	2.79
<b>FCF/Share</b>	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.

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