



# Generation Income Properties, Inc. (GIPR)

Updated July 30<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$2.96	<b>5 Year CAGR Estimate:</b>	-0.7%	<b>Market Cap:</b>	\$16.0 M
<b>Fair Value Price:</b>	\$2.00	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	N/A
<b>% Fair Value:</b>	148%	<b>5 Year Valuation Multiple Estimate:</b>	-7.5%	<b>Dividend Payment Date:</b>	N/A
<b>Dividend Yield:</b>	7.9%	<b>5 Year Price Target</b>	\$2.00	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 March 31<sup>st</sup>, 2024, 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 539,827 leasable square feet and an annualized base rent of \$8.65 million. Generation Income Properties was founded in 2015, has only six employees, and trades with a market cap of just \$16 million. The trust generated \$7.63 million in rental revenues last year and is based in Tampa, Florida.

On May 20<sup>th</sup>, 2024, Generation Income reported its Q1 results for the period ending March 31<sup>st</sup>, 2024. For the quarter, total revenues from operations came in at \$2.43 million as compared to \$1.43 million in the prior-year period. This represents a year-over-year increase of 81%, mainly driven by property acquisitions. Operating expenses, including G&A, came in at \$3.63 million, up from \$2.0 million last year.

Core AFFO came in at \$241.2K, or \$0.05 per share, compared to a negative \$14,849, or (\$0.006) per share last year. At the end of the year, 93% of the company's portfolio was leased and occupied, with all rents due collected. We now forecast an AFFO/share power of \$0.25 for the fiscal year 2024.

On July 3<sup>rd</sup>, 2024, the company announced that no further distributions will be paid post-June, in an effort to preserve cash. That said, the company expressed its intention to remain a REIT, therefore some form of distribution may return from next year. Total dividends per share in FY2023 amount to \$0.23, as a result.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>AFFO/share</b>	---	---	---	---	---	(\$0.64)	\$0.33	\$0.15	\$0.18	\$0.28	<b>\$0.25</b>	<b>\$0.25</b>
<b>DPS</b>	---	---	---	---	\$0.84	\$0.77	\$0.68	\$0.49	\$0.60	\$0.47	<b>\$0.23</b>	<b>\$0.14</b>
<b>Shares<sup>1</sup></b>	---	---	---	---	---	0.5	0.5	1.1	2.3	2.5	<b>4.4</b>	<b>5.0</b>

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 \$0.25 in AFFO/share on an annualized basis. On the one hand, some catalysts could boost AFFO/share over time. One such is that 93% 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 5.0 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

<sup>1</sup> 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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shareholders relative to the benefits that came with the new properties. Thus, any gains from rent escalations could easily be offset. In the meantime, no further dividends are expected for FY2023. Moving forward, we forecast the dividend to be resumed, but have incorporated negative 10% growth rate over the medium term, assuming a declining dividend capacity from this year's levels.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	---	---	---	---	---	---	---	---	---	14.9	<b>11.8</b>	<b>8.0</b>
Avg. Yld.	---	---	---	---	---	---	---	9.6%	9.5%	11.2%	<b>7.9%</b>	<b>6.9%</b>

Shares of Generation Income Properties are currently trading at 11.8 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

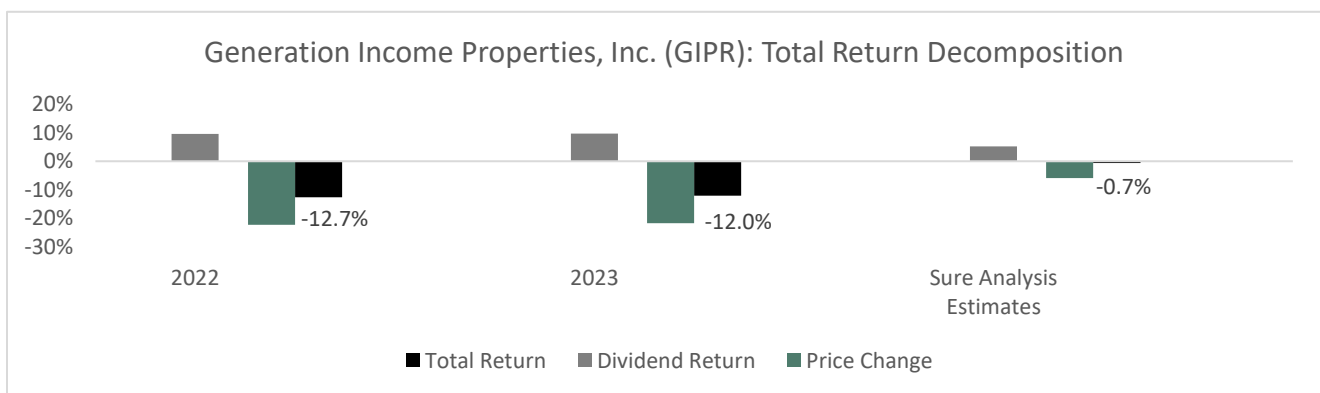
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	206%	327%	333%	167%	<b>94%</b>	<b>55%</b>

As we had mentioned in earlier reports prior to the dividend suspension, we do not trust the company's ability to pay a sustainable dividend. The company has historically overpaid—a trend that could persist in the future. 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 relatively fully 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 relatively new REIT that hasn't had enough time to develop an indicative track record. Yet, based on what we've seen so far, the company employs a risky financing strategy that could destroy shareholders' equity value. We had previously raised concerns about the stock's dividend sustainability, and recent events, including the suspension of the dividend, have validated those concerns. Given the current situation, we see no compelling reason to be optimistic about the stock's investment case. 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.

### Disclaimer

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