



# Whitestone REIT (WSR)

Updated November 3<sup>rd</sup>, 2024 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$14	<b>5 Year CAGR Estimate:</b>	6.2%	<b>Market Cap:</b>	\$700M
<b>Fair Value Price:</b>	\$12	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/04/24
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.3%	<b>Dividend Payment Date:</b>	11/14/24
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$15	<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 4.9 million square feet of gross leasable area primarily in fast-growing U.S. markets such as Texas and Arizona. Its tenant base is very diversified consisting of 1,466 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 third quarter 2024 results on 10/30/24, during which it witnessed an occupancy rate of 94.1% versus 92.7% in Q3 2023. For the quarter, revenue growth was 4% to \$37.1 million versus Q3 2023. Funds from operations (“FFO”) rose 11% year over year to \$13 million, while FFO per share rose 8.7% to \$0.25. Same-store net operating income (“SSNOI”) rose 4.6% to \$24.2 million. Also, rental rate growth was 25.3%, down from 24.4% a year ago, supported by rental rate growth in renewal leases at 25.9% versus 24.6% a year ago and new leases at 22.7% vs. 23.6% a year ago. There were 26 new leases and 46 renewal leases in the quarter.

Year to date, revenue growth was 3.7% to \$113.4 million, FFO growth was 4.9% to \$36.1 million, and FFO per share was up 4.5% at \$0.70. Whitestone’s latest 2024 guidance is as follows: SSNOI growth of 3.75%-4.75% and core FFOPS of \$0.98-\$1.04. It forecasts an ending period 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 kept 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.

<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	13.5	12.0
Avg. Yld.	7.5%	9.5%	7.9%	7.9%	9.3%	8.7%	5.5%	4.5%	4.2%	4.9%	3.6%	4.2%

From 2019 to 2023, Whitestone traded at a price to funds from operations multiple (P/FFO) of 11.1. And from 2014-2023, it traded at a P/FFO of 12.6. We target a fair P/FFO of 12. The stock appears to be a bit 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%

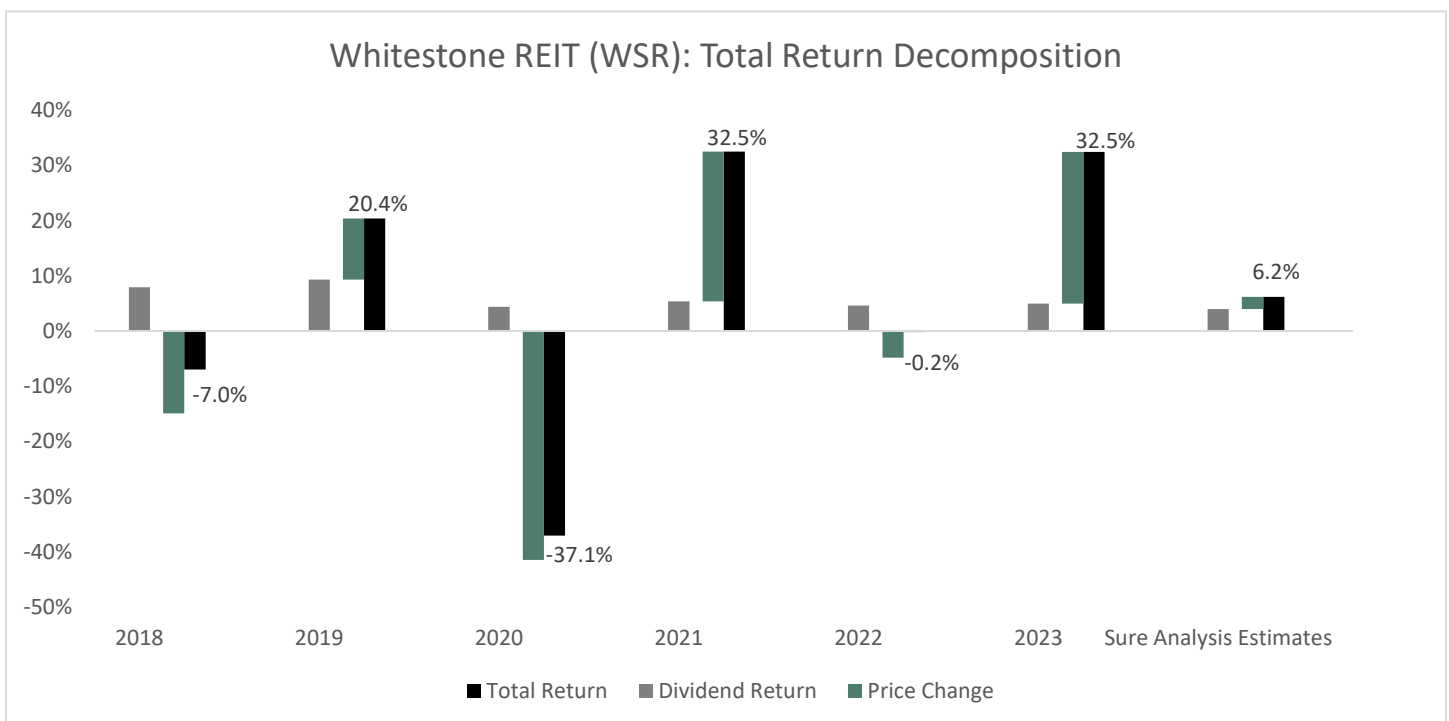
Whitestone had some financial troubles during the previous recession in 2008. From 2007 to 2008, its rental income dropped by \$5.8 million, and it took until 2012 for the rental income to return to the 2007 highs. Whitestone cut its dividend by 63% in 2020. The company is now steadily increasing its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

At the end of Q3 2024, Whitestone had a debt-to-asset ratio of 62% and debt-to-equity ratio of 1.6 times. At the end of the quarter, the REIT had \$2.5 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 6.2% over the next five years, stemming from a 3.6% dividend yield and 5.0% FFOPS growth, partly offset by a -2.3% valuation headwind. Concerns surrounding this REIT include higher interest rates, and what is its normal growth rate in a normalized environment post-pandemic. WSR earns a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	72	93	104	126	120	119	118	125	139	148
Gross Profit	47	62	70	84	82	82	79	86	96	102
Gross Margin	65.3%	66.5%	67.4%	66.6%	68.8%	69.1%	67.3%	68.6%	68.9%	68.9%
SG&A Exp.	15	20	24	24	23	22	21	23	18	21
D&A Exp.	16	20	22	27	26	27	28	29	32	33
Operating Profit	16	22	24	33	33	34	30	34	46	48
Operating Margin	22.4%	23.6%	22.9%	25.9%	27.9%	28.5%	25.2%	27.5%	33.2%	32.4%
Net Profit	8	7	8	8	21	24	6	12	35	19
Net Margin	10.5%	7.2%	7.6%	6.6%	17.9%	19.9%	5.1%	9.6%	25.3%	12.8%
Free Cash Flow	26	36	41	41	40	48	43	47	44	48
Income Tax	0	0	0	0	0	0	0	0	0	0

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	634	782	855	1070	1029	1056	1045	1102	1103	1113
Cash & Equivalents	4	3	4	5	14	16	26	16	6	5
Accounts Receivable	12	15	20	21	21	23	23	22	25	16
Total Liabilities	421	535	588	712	670	703	707	703	678	694
Accounts Payable	16	24	29	36	34	39	51	46	36	37
Long-Term Debt	394	498	544	659	618	645	644	643	625	640
Shareholder's Equity	210	243	256	348	350	345	332	393	418	414
LTD/E Ratio	1.88	2.05	2.13	1.90	1.76	1.87	1.94	1.64	1.49	1.55

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.0%	1.0%	0.9%	2.0%	2.3%	0.6%	1.1%	3.2%	1.7%
Return on Equity	3.6%	3.0%	3.2%	2.8%	6.1%	6.8%	1.8%	3.3%	8.7%	4.5%
ROIC	1.4%	1.0%	1.0%	0.9%	2.1%	2.4%	0.6%	1.2%	3.4%	1.8%
Shares Out.	22.8	27.0	29.2	38.5	39.8	40.6	43.3	50.0	50.0	50.8
Revenue/Share	3.18	3.64	3.68	3.47	2.95	2.88	2.74	2.71	2.79	2.91
FCF/Share	1.13	1.41	1.43	1.14	0.97	1.15	1.00	1.02	0.89	0.94

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

### Disclaimer

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