



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

WRI - NYSE (as of 4/24/2017)	\$34.39
Price Target	N/A
52-Week Range	\$31.13 - \$43.70
Shares Outstanding (mm)	130
Market Cap. (\$mm)	\$4,471
3-Mo. Average Daily Volume (000)	1,030.2
Institutional Ownership	79%
Debt/Total Market Capital - Pro rata (3/17)	36%
Est 3- Year Dividend Growth Rate	2% - 5%
Dividend	\$1.54
Dividend Yield	4.5%
Est. Fixed Charge Coverage (3/17)	3.8x

### FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.52		\$0.57 A		\$0.62
2Q	\$0.59	\$0.58	\$0.59		\$0.62
3Q	\$0.56	\$0.61	\$0.59		\$0.62
4Q	\$0.61	\$0.63	\$0.61		\$0.64
Year	\$2.28	\$2.40	\$2.36		\$2.50
P/FFO	15.1x		14.6x		13.8x

\*Prior FFO per share have been restated due to the impairment charge accounting change.

Quarterly amounts may not add up to full year amounts due to rounding.

### Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$132		\$144 A		\$154
2Q	\$136	\$147	\$143		\$156
3Q	\$139	\$150	\$144		\$158
4Q	\$143	\$156	\$150		\$165
Year	\$550	\$597	\$580		\$632

\*Previous revenue amounts have not been restated.

**Company Description:** Weingarten Realty Investors, headquartered in Houston, Texas, is a real estate investment trust (REIT). As of March 31, 2017, the company owned or operated 218 properties located in 18 states.

## REITs

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## Weingarten Realty Investors

WRI -- NYSE -- Neutral -- 3

### First Quarter Results

- **First quarter FFO per share was \$0.57, five cents above the year ago period.** Results came in a penny below our estimate. Core FFO was \$0.61 per share and was \$0.57 per share in the year ago period.
- **Occupancy (on a signed basis) was down 150 basis points from the year ago period at 93.7%.** Occupancy for retail spaces under 10,000 feet was 90.5%, up 50 basis points from the year ago quarter.
- **We are lowering our 2017 FFO per share estimate by four cents to \$2.36.** WRI lowered 2017 NAREIT FFO per share guidance by three cents to a range of \$2.33 - \$2.39. Assumptions in guidance include dispositions of \$125 million to \$225 million, acquisitions of \$125 million to \$225 million, redevelopment and new development investment of \$135 million to \$235 million, same center NOI growth of 2.5% to 3.5% with redevelopments, and same center NOI growth without redevelopments of 2.0% to 3.0%.
- **We maintain our Neutral rating on WRI.** We believe the shares are fairly valued at this time.

**Note Important Disclosures on Pages 6 and 7.  
Note Analyst Certification on Page 6.**

### **Additional Discussion**

First quarter total revenue was \$143.7 million, up 8.5% from the year ago period (please see income statement on page 3). Rental income rose 9.6% year-over-year, as base rent increased 7.6%.

Weingarten's combined (retail and other operating properties) occupancy on a signed basis was 93.7% at quarter-end, down 150 basis points from the year ago period, and down 60 basis points from the fourth quarter. Occupancy for spaces under 10,000 feet was 90.5%, up 50 basis points from the year ago quarter. Average minimum (base) rent per square foot for retail properties was \$18.22. During the first quarter, WRI completed 276 (62 new and 214 renewal) comparable leases. The average rental rate increase on comparable new leases and renewals signed during the quarter were 7.6% and 9.8%, respectively.

Net income to common shareholders in the first quarter was \$30.8 million versus \$107.1 million in the year ago period. FFO per share were \$0.57 compared to \$0.52 per share in 1Q16. Core FFO were \$0.61 per share versus \$0.57 per share in 1Q16.

### **Overview**

**Retail Environment** - Weingarten has not been significantly impacted by store closings and retailer bankruptcies. The company does not have exposure to many of the tenants closing stores. Weingarten is still seeing good demand for space. Rental rate increases continue to be strong. The company is seeing strong demand for space from retailers selling discount apparel, pet supplies, home furnishings, quick and full service restaurants as well as medical tenants.

**Acquisitions & Dispositions** - The company acquired one land parcel in 1Q17. WRI purchased a condominium interest in The Whittaker, a six story mixed used product co-developed in West Seattle. So far in 2017, WRI has completed \$99.6 million of dispositions, consisting of five shopping centers and three land parcels.

**Development Pipeline** - There are three properties included in WRI's development pipeline with an estimated total cost of \$347.4 million. Two of these projects will have residential components to them that WRI plans to sell after the assets stabilize. WRI has fifteen active redevelopment projects with an estimated total cost of \$74.6 million.

**Financials** - As of March 31, WRI had final (assuming extension options are exercised) debt maturities of \$72.3 million and \$44.4 million in 2017 and 2018, respectively. We believe the company's near-term maturities are manageable.

**Guidance & Estimates** - WRI lowered 2017 NAREIT FFO per share guidance by three cents to a range of \$2.33 - \$2.39. Assumptions in guidance include dispositions of \$125 million to \$225 million, acquisitions of \$125 million to \$225 million, redevelopment and new development investment of \$135 million to \$235 million, same center NOI growth of 2.5% to 3.5% with redevelopments, and same center NOI growth without redevelopments of 2.0% to 3.0%. Our revised FFO per share estimate for 2017 is \$2.36. WRI's guidance for Core FFO (which does not include non-recurring items) is \$2.37 - \$2.43 per share.

**Quarterly Income Statement**

(in thousands, except per share date)	1Q17	1Q16	% Change
Rental Income	\$140,818	\$128,509	9.6%
Other	2,845	3,908	-27.2%
<b>Total Revenue</b>	<b>143,663</b>	<b>132,417</b>	<b>8.5%</b>
Real Estate Operating Expenses	29,910	23,536	27.1%
Real Estate Taxes	17,517	15,857	10.5%
	47,427	39,393	20.4%
<b>Real Estate Operating Income (NOI)</b>	<b>96,236</b>	<b>93,024</b>	<b>3.5%</b>
General and Administrative Expenses	7,516	6,498	15.7%
<b>EBITDA</b>	<b>88,720</b>	<b>86,526</b>	<b>2.5%</b>
Interest Expense	21,082	20,891	
Interest Income and Other (Expense) Income	1,754	211	
Depreciation and Amortization Expense	42,449	37,879	12.1%
Impairment Loss	14,986	43	
<b>Income Before Minority Interests, Gains &amp; Pref. Dividends</b>	<b>11,957</b>	<b>27,924</b>	<b>-57.2%</b>
Gain on Sale and Acquisition of Real Estate Joint Venture and Partnership Interests		37,392	
Equity in Earnings of Joint Ventures	5,317	4,093	29.9%
Gain on Redemption of Convertible Senior Unsecured Notes			
Net Income Attributable to Noncontrolling Interest	(5,570)	(1,593)	
Gain (Loss) on Sale of Properties	15,763	45,157	-65.1%
Gain on Acquisition			
Loss on Redemption of Convertible Senior Unsecured Notes			
Gain on Land & Merchant Development Sales			
Discontinued Operations (including real estate gains)			
(Provision) Benefit for Income Taxes	3,359	(5,899)	
Redemption Costs of Preferred Shares			
Preferred Dividends			
<b>Net Income Applicable to Common Stockholders</b>	<b>\$30,826</b>	<b>\$107,074</b>	<b>-71.2%</b>
Earnings Per Share (diluted)	\$0.24	\$0.85	-71.8%
Avg. Shares Outstanding (diluted)	127,610	123,593	3.3%

<b>Funds From Operations</b>	1Q17	1Q16	% Change
Net Income Applicable to Common Shareholders	\$30,826	\$107,074	-71.2%
Real Estate Depreciation and Amortization Expense	41,621	37,209	11.9%
Depreciation and Amortization of Joint Ventures	3,639	3,686	-1.3%
Impairment of Operating Properties and Real Estate Equity Investments	12,005		
Impairment of Operating Properties of Unconsolidated Real Estate Joint Ventures and Partnerships		326	
(Gain) on Acquisitions		(37,383)	
Gain on Sale of Real Estate (including Joint Ventures)	(11,812)	(45,125)	
Other	(2,392)		
<b>Total Funds From Operations</b>	<b>\$73,887</b>	<b>\$65,787</b>	<b>12.3%</b>
<b>FFO Per Share (diluted)</b>	<b>\$0.57</b>	<b>\$0.52</b>	<b>9.6%</b>
Avg. Shares and Units Outstanding (diluted)	130,010	126,271	3.0%

Source: Company reports

**Condensed Balance Sheet**

(in thousands)	<b>31-Dec-15</b>	<b>31-Dec-16</b>	<b>31-Mar-17</b>
<b>Investments in Real Estate</b>			
Property	\$4,262,959	\$4,789,145	\$4,747,347
Property Held for Sale	34,363	479	15,998
Accumulated Depreciation	(1,087,642)	(1,184,546)	(1,189,269)
Investment in R/E Joint Ventures	267,041	289,192	288,271
<b>Net Investment in Real Estate</b>	<b>\$3,476,721</b>	<b>\$3,894,270</b>	<b>\$3,862,347</b>
Cash and Cash Equivalents	22,168	16,257	3,615
Notes Receivable from R/E Joint Ventures and Partnerships			
Unamortized Debt and Lease Costs	137,609	208,063	201,321
Accrued Rent and Accounts Receivable	84,782	94,466	90,883
Restricted Deposits and Mortgage Escrows	3,074	25,022	3,299
Other Assets	177,591	188,850	190,626
<b>Total Assets</b>	<b>\$3,901,945</b>	<b>\$4,426,928</b>	<b>\$4,352,091</b>
<b>Debt</b>	<b>\$2,113,277</b>	<b>\$2,356,528</b>	<b>\$2,323,447</b>
Accounts Payable and Accrued Expenses	112,205	116,859	90,728
Other Liabilities	131,453	191,887	191,053
<b>Total Liabilities</b>	<b>\$2,356,935</b>	<b>\$2,665,274</b>	<b>\$2,605,228</b>
Commitments and Contingencies			
Deferred Compensation Share Awards		44,758	
Preferred Stocks			
Treasury Shares of Beneficial Interest			
Common Stock	3,744	3,885	3,895
Capital Surplus	1,616,242	1,718,101	1,769,133
Net Income in Excess of Accumulated Dividends	(222,880)	(177,647)	(196,844)
Accumulated Other Comprehensive Loss	(7,644)	(9,161)	(7,958)
<b>Shareholders' Equity</b>	<b>\$1,389,462</b>	<b>\$1,535,178</b>	<b>\$1,568,226</b>
Noncontrolling Interest	155,548	181,718	178,637
<b>Total Liabilities and Equity</b>	<b>\$3,901,945</b>	<b>\$4,426,928</b>	<b>\$4,352,091</b>

Balance Sheet Ratio Analysis	31-Dec-15	31-Dec-16	31-Mar-17
Net R/E Investments / Total Debt	164.5%	165.3%	166.2%
Debt to Equity	152.1%	153.5%	148.2%
Debt to Total Market Capitalization (including prorata JV debt)	33.9%	34.4%	35.6%
Debt as % of Total Assets	54.2%	53.2%	53.4%
Fixed-rate Debt as % of Total Debt (Prorata Share)	87.9%	89.0%	89.0%
Shareholders' Equity as % of Total Assets	35.6%	34.7%	36.0%

Source: Company reports

## Valuation

At 13.8x our 2018 FFO forecast, we believe WRI is fairly valued in the current environment. The shares are currently trading below their median historic 5-year forward P/FFO multiple. We believe WRI may sell more assets than we have modeled for in 2017, possibly leading us to lower our 2017 and 2018 FFO per share estimates in the future. We are maintaining our Neutral rating on Weingarten at this time based on valuation only as we like the fundamentals for the company.

Shopping Center REITs		Price	Current			FFO Per Share			2-Year Exp.	18/17 Exp.	Price/FFO	
	Symbol	4/24/2017	Dividend	Yield	Payout Ratio	2016	2017E	2018E	Avg. Growth	Growth	FY 2017E	FY 2018E
Kimco Realty Corporation	KIM	\$21.58	\$1.08	5.0%	70.6%	\$1.31	\$1.53	\$1.64	12.6%	7.2%	14.1x	13.2x
Federal Realty Investment Trust	FRT	\$133.75	\$3.92	2.9%	66.7%	\$5.01	\$5.88	\$6.25	12.4%	6.3%	22.7x	21.4x
DDR Corp.	DDR	\$12.21	\$0.76	6.2%	70.4%	\$1.27	\$1.08	\$1.10	-6.7%	1.9%	11.3x	11.1x
Regency Centers Corp.	REG	\$65.24	\$2.04	3.1%	58.5%	\$2.96	\$3.49	\$3.73	13.0%	6.9%	18.7x	17.5x
<b>Peer Average</b>		<b>\$58.20</b>	<b>\$1.95</b>	<b>4.3%</b>	<b>66.5%</b>	<b>\$2.64</b>	<b>\$3.00</b>	<b>\$3.18</b>	<b>7.8%</b>	<b>5.6%</b>	<b>16.7x</b>	<b>15.8x</b>
<b>S&amp;P 500</b>	<b>SPX</b>	<b>2,374.15</b>	<b>\$48.08</b>	<b>2.0%</b>	<b>37.3%</b>	<b>\$117.75</b>	<b>\$128.78</b>	<b>\$137.05</b>	<b>8.2%</b>	<b>6.4%</b>	<b>18.4x</b>	<b>17.3x</b>
<b>Weingarten Realty Investors</b>	<b>WRI</b>	<b>\$34.39</b>	<b>\$1.54</b>	<b>4.5%</b>	<b>65.3%</b>	<b>\$2.28</b>	<b>\$2.36</b>	<b>\$2.50</b>	<b>4.8%</b>	<b>5.9%</b>	<b>14.6x</b>	<b>13.8x</b>

Note: Our rating on DDR is Neutral, the rest are not rated.  
SPX figures are EPS, not FFO per share.

Source: NAREIT, Baseline, ILX, and Hilliard Lyons' estimates

**Dividend** - On February 21, 2017, Weingarten announced an increase in the common dividend rate from \$0.365 per quarter to \$0.385 per quarter, or \$1.54 per share in cash on an annual basis. The increase represented a 5.5% increase above the prior payment.

## Suitability

We assign shares of Weingarten Realty Investors a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property type diversification offset by what we view as a strong balance sheet.

## Risks and Considerations

WRI's FFO could be impacted by external factors beyond the company's control or due to internal factors. We believe these risk factors include, but are not limited to: interest rate risk, a decline in consumer spending, change in consumer spending patterns/trends, an inability to finance acquisitions or developments, development risk, higher construction or supply cost, bankruptcy of tenant(s), etc.

*Additional information is available upon request.*

### Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

### Investment Ratings

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

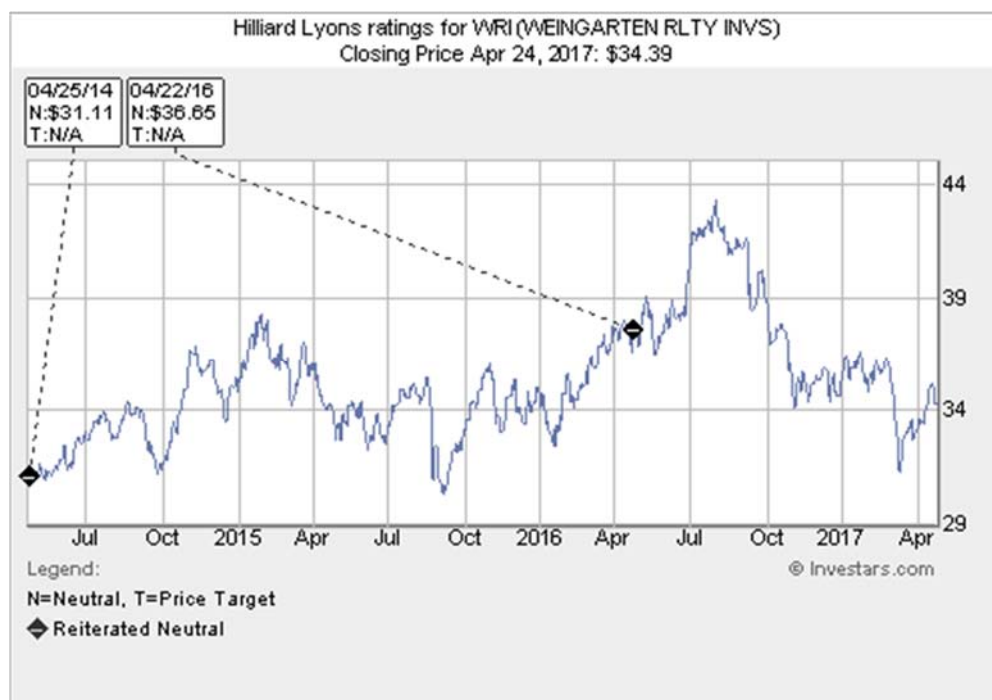
### Suitability Ratings

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



<b>Rating</b>	<b>Hilliard Lyons Recommended Issues</b>		<b>Investment Banking Provided in Past 12 Mo.</b>	
	<b># of Stocks Covered</b>	<b>% of Stocks Covered</b>	<b>Banking</b>	<b>No Banking</b>
<b>Buy</b>	36	30%	14%	86%
<b>Hold/Neutral</b>	71	58%	6%	94%
<b>Sell</b>	15	12%	7%	93%

*As of 5 April 2017*

#### **Other Disclosures**

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