



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

WRI - NYSE (as of 7/27/2017)	\$32.58
Price Target	N/A
52-Week Range	\$29.03 - \$43.70
Shares Outstanding (mm)	130
Market Cap. (\$mm)	\$4,235
3-Mo. Average Daily Volume (000)	1,012
Institutional Ownership	82%
Debt/Total Market Capital - Pro rata (6/17)	38%
Est 3- Year Dividend Growth Rate	2% - 5%
Dividend	\$1.54
Dividend Yield	4.7%
Est. Fixed Charge Coverage (6/17)	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	\$0.61
2Q	\$0.59		\$0.61 A	\$0.62	\$0.61
3Q	\$0.56	\$0.59	\$0.59	\$0.62	\$0.61
4Q	\$0.61	\$0.61	\$0.61	\$0.64	\$0.68
Year	\$2.28	\$2.36	\$2.37	\$2.50	\$2.52
P/FFO	14.3x		13.7x		12.9x

\*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	\$149
2Q	\$136		\$146 A	\$156	\$150
3Q	\$139	\$144	\$143	\$158	\$152
4Q	\$143	\$150	\$146	\$165	\$164
Year	\$550	\$580	\$579	\$632	\$615

\*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 June 30, 2017, the company owned or operated 216 properties located in 18 states.

## REITs

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July 28, 2017

## Weingarten Realty Investors

WRI -- NYSE -- Neutral -- 3

### Second Quarter Results

- **Second quarter FFO per share was \$0.61, two cents above the year ago period.** Results came in two cents above 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 40 basis points from the year ago period at 94.5%.** Occupancy for retail spaces under 10,000 feet was 90.7%, up 50 basis points from the year ago quarter.
- **We are raising our 2017 FFO per share estimate by a penny to \$2.37.** WRI raised 2017 NAREIT FFO per share guidance by a penny on both sides to a range of \$2.34 - \$2.40. Assumptions in guidance include: dispositions of \$200 million to \$400 million, acquisitions of \$50 million to \$150 million, redevelopment and new development investment of \$125 million to \$175 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**

Second quarter total revenue was \$146.0 million, up 7.6% from the year ago period (please see income statement on page 3). Rental income rose 7.6% year-over-year, as base rent increased 4.6%.

Weingarten's combined (retail and other operating properties) occupancy on a signed basis was 94.5% at quarter-end, down 40 basis points from the year ago period, but up 80 basis points from the first quarter. Occupancy for spaces under 10,000 feet was 90.7%, up 50 basis points from the year ago quarter. Average minimum (base) rent per square foot for retail properties was \$18.37. During the second quarter, WRI completed 224 (42 new and 182 renewal) comparable leases. The average rental rate increase on comparable new leases and renewals signed during the quarter was 43.4% and 7.7%, respectively.

Net income to common shareholders in the second quarter was \$63.9 million versus \$35.8 million in the year ago period. FFO per share were \$0.61 compared to \$0.59 per share in 2Q16. Core FFO were \$0.61 per share versus \$0.57 per share in 2Q16.

### **Overview**

**Retail Environment** - Weingarten has not been significantly impacted by store closings and retailer bankruptcies. Weingarten is still seeing good demand for space. Rental rate increases continue to be strong. The company is seeing strong demand for space from health and beauty, medical, fitness, wireless and quick service restaurants.

**Acquisitions & Dispositions** - The company completed no acquisitions in the second quarter. During 2Q, WRI completed \$56.4 million of dispositions. Subsequent to quarter end, WRI sold an additional \$57.5 million of assets.

**Development Pipeline** - There are three properties included in WRI's development pipeline with an estimated total cost of \$347.2 million. Two of these projects will have residential components to them that WRI plans to sell after the assets stabilize. WRI has seventeen active redevelopment projects with an estimated total cost of \$238.1 million.

**Financials** - As of June 30, WRI had final (assuming extension options are exercised) debt maturities of \$41.6 million and \$44.5 million in 2017 and 2018, respectively. We believe the company's near-term maturities are manageable.

**Guidance & Estimates** - WRI raised 2017 NAREIT FFO per share guidance by a penny on both sides to a range of \$2.34 - \$2.40. Assumptions in guidance include: dispositions of \$200 million to \$400 million, acquisitions of \$50 million to \$150 million, redevelopment and new development investment of \$125 million to \$175 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 \$2.37. WRI's guidance for Core FFO (which does not include non-recurring items) is \$2.38 - \$2.44 per share.

**Quarterly Income Statement**

(in thousands, except per share date)	2Q17	2Q16	% Change
Rental Income	\$142,963	\$132,814	7.6%
Other	3,060	2,862	6.9%
<b>Total Revenue</b>	<b>146,023</b>	<b>135,676</b>	<b>7.6%</b>
Real Estate Operating Expenses	26,221	24,663	6.3%
Real Estate Taxes	21,632	17,221	25.6%
	47,853	41,884	14.3%
<b>Real Estate Operating Income (NOI)</b>	<b>98,170</b>	<b>93,792</b>	<b>4.7%</b>
General and Administrative Expenses	6,514	6,388	2.0%
<b>EBITDA</b>	<b>91,656</b>	<b>87,404</b>	<b>4.9%</b>
Interest Expense	20,473	18,558	
Interest Income and Other (Expense) Income	1,286	361	
Depreciation and Amortization Expense	42,157	39,218	7.5%
Impairment Loss	26		
<b>Income Before Minority Interests, Gains &amp; Pref. Dividends</b>	<b>30,286</b>	<b>29,989</b>	<b>1.0%</b>
Gain on Sale and Acquisition of Real Estate Joint Venture and Partnership Interests			
Equity in Earnings of Joint Ventures	7,430	6,645	
Gain on Redemption of Convertible Senior Unsecured Notes			
Net Income Attributable to Noncontrolling Interest	(5,341)	(1,835)	
Gain (Loss) on Sale of Properties	32,224	1,033	
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	(747)	(16)	
Redemption Costs of Preferred Shares			
Preferred Dividends			
<b>Net Income Applicable to Common Stockholders</b>	<b>\$63,852</b>	<b>\$35,816</b>	<b>78.3%</b>
<b>Earnings Per Share (diluted)</b>	<b>\$0.49</b>	<b>\$0.28</b>	<b>75.0%</b>

<b>Funds From Operations</b>	2Q17	2Q16	% Change
Net Income Applicable to Common Shareholders	\$63,852	\$35,816	78.3%
Real Estate Depreciation and Amortization Expense	41,951	39,010	7.5%
Depreciation and Amortization of Joint Ventures	3,548	3,993	-11.1%
Impairment of Operating Properties and Real Estate Equity Investments	2		
Impairment of Operating Properties of Unconsolidated Real Estate Joint Ventures and Partnerships			
(Gain) on Acquisitions			
Gain on Sale of Real Estate (including Joint Ventures)	(33,920)	(3,541)	
Other	3,415	(465)	
<b>Total Funds From Operations</b>	<b>\$78,848</b>	<b>\$74,813</b>	<b>5.4%</b>
<b>FFO Per Share (diluted)</b>	<b>\$0.61</b>	<b>\$0.59</b>	<b>3.4%</b>
<b>Avg. Shares and Units Outstanding (diluted)</b>	<b>130,095</b>	<b>128,306</b>	<b>1.4%</b>

Source: Company reports

**Condensed Balance Sheet**

	31-Dec-15	31-Dec-16	30-Jun-17
(in thousands)			
<b>Investments in Real Estate</b>			
Property	\$4,262,959	\$4,789,145	\$4,723,900
Property Held for Sale	34,363	479	18,529
Accumulated Depreciation	(1,087,642)	(1,184,546)	(1,201,236)
Investment in R/E Joint Ventures	267,041	289,192	313,674
<b>Net Investment in Real Estate</b>	<b>\$3,476,721</b>	<b>\$3,894,270</b>	<b>\$3,854,867</b>
Cash and Cash Equivalents	22,168	16,257	6,657
Notes Receivable from R/E Joint Ventures and Partnerships			
Unamortized Debt and Lease Costs	137,609	208,063	194,322
Accrued Rent and Accounts Receivable	84,782	94,466	90,328
Restricted Deposits and Mortgage Escrows	3,074	25,022	5,965
Other Assets	177,591	188,850	194,618
<b>Total Assets</b>	<b>\$3,901,945</b>	<b>\$4,426,928</b>	<b>\$4,346,757</b>
<b>Debt</b>	<b>\$2,113,277</b>	<b>\$2,356,528</b>	<b>\$2,291,474</b>
Accounts Payable and Accrued Expenses	112,205	116,859	104,393
Other Liabilities	131,453	191,887	190,785
<b>Total Liabilities</b>	<b>\$2,356,935</b>	<b>\$2,665,274</b>	<b>\$2,586,652</b>
Commitments and Contingencies			
Deferred Compensation Share Awards		44,758	
Preferred Stocks			
Treasury Shares of Beneficial Interest			
Common Stock	3,744	3,885	3,896
Capital Surplus	1,616,242	1,718,101	1,770,415
Net Income in Excess of Accumulated Dividends	(222,880)	(177,647)	(182,432)
Accumulated Other Comprehensive Loss	(7,644)	(9,161)	(7,901)
<b>Shareholders' Equity</b>	<b>\$1,389,462</b>	<b>\$1,535,178</b>	<b>\$1,583,978</b>
Noncontrolling Interest	155,548	181,718	176,127
<b>Total Liabilities and Equity</b>	<b>\$3,901,945</b>	<b>\$4,426,928</b>	<b>\$4,346,757</b>

Balance Sheet Ratio Analysis	31-Dec-15	31-Dec-16	30-Jun-17
Net R/E Investments / Total Debt	164.5%	165.3%	168.2%
Debt to Equity	152.1%	153.5%	144.7%
Debt to Total Market Capitalization (including prorata JV debt)	33.9%	34.4%	37.7%
Debt as % of Total Assets	54.2%	53.2%	52.7%
Fixed-rate Debt as % of Total Debt (Prorata Share)	87.9%	89.0%	90.6%
Shareholders' Equity as % of Total Assets	35.6%	34.7%	36.4%

Source: Company reports

## Valuation

At 12.9x 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.

Shopping Center REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17 Exp.	Price/FFO	
		7/27/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth	FY 2017E	FY 2018E
Kimco Realty Corporation	KIM	\$21.02	\$1.08	5.1%	70.6%	\$1.31	\$1.53	\$1.62	11.8%	5.9%	13.7x	13.0x
Federal Realty Investment Trust	FRT	\$135.03	\$3.92	2.9%	66.4%	\$5.01	\$5.90	\$6.23	12.2%	5.6%	22.9x	21.7x
DDR Corp.	DDR	\$10.79	\$0.76	7.0%	96.2%	\$1.27	\$0.79	\$0.92	-13.8%	16.5%	13.7x	11.7x
Regency Centers Corp.	REG	\$67.19	\$2.12	3.2%	58.4%	\$2.96	\$3.63	\$3.81	14.4%	5.0%	18.5x	17.6x
<b>Peer Average</b>		<b>\$58.51</b>	<b>\$1.97</b>	<b>4.6%</b>	<b>72.9%</b>	<b>\$2.64</b>	<b>\$2.96</b>	<b>\$3.15</b>	<b>6.1%</b>	<b>8.2%</b>	<b>17.2x</b>	<b>16.0x</b>
<b>S&amp;P 500</b>	<b>.SPX</b>	<b>2,475.42</b>	<b>\$48.95</b>	<b>2.0%</b>	<b>37.4%</b>	<b>\$117.75</b>	<b>\$130.74</b>	<b>\$139.52</b>	<b>9.2%</b>	<b>6.7%</b>	<b>18.9x</b>	<b>17.7x</b>
<b>Weingarten Realty Investors</b>	<b>WRI</b>	<b>\$32.58</b>	<b>\$1.54</b>	<b>4.7%</b>	<b>65.0%</b>	<b>\$2.28</b>	<b>\$2.37</b>	<b>\$2.52</b>	<b>5.3%</b>	<b>6.3%</b>	<b>13.7x</b>	<b>12.9x</b>

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

Source: NAREIT, HL Estimates, and Thomson Eikon.

**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	29%	14%	86%
<b>Hold/Neutral</b>	79	63%	5%	95%
<b>Sell</b>	10	8%	0%	100%

*As of 7 July 2017*

#### **Other Disclosures**

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