

Breaking - Snowflake indicated to open at \$155 ... \$170 ... \$190 ... \$200



Brad Thomas

# Power REIT: Nano-Cap REIT Pulled Back 45%

Sep. 15, 2020 4:12 PM ET | undefined (PW) | 8 Comments

## Summary

- Power REIT is focused on acquiring Controlled Environment Agriculture facilities in the form of Greenhouses.
- Greenhouses are a sustainable solution for the cultivation of cannabis and food production.
- These real estate assets are leased on a triple-net basis.
- Greenhouses are modular and properties are have builtin expansion opportunities which should be accretive to FFO.

**PLEASE NOTE:** PW is a **Nano-Cap with a market capitalization of \$37 million**, so we consider this stock **highly speculative**. We have no formal recommendation and we do not plan to publish this article on the free site. There is no dividend being paid on the common shares (there is on the preferred as referenced below).

**Power REIT (PW)** has experienced a significant sell-off in its common stock over the last few months, which we believe presents a great buying opportunity (speculative). Shares are now trading \$17.10 per share.



Source: Yahoo Finance

We have been following this REIT for more than five years and find that this REIT to be thoughtful in deploying capital, prudently underwriting acquisitions that positions the company for future growth through Core FFO growth.

In addition, Power REIT has been diligent in diversifying its Board and Management team by appointing Paula Poskon – REIT Veteran and financial expert to the Board and promoting Susan



Hollander to Chief Accounting Officer. Both women have extensive real estate and financial expertise.

### "Triple Bottom Line" Investment Opportunity/ESG

*Power REIT is investing in sustainable properties with attractive risk adjusted returns and a rapid return on capital*

#### Environmental

- Focus on CEA Greenhouse Properties:
  - ~70% less energy than indoor growing
  - 95% less water usage
  - No agricultural "runoff" of fertilizers / pesticides
- Power REIT owns land associated with utility scale Solar Farms
- Solar farms produce power without fossil fuels
- Railroad - environmentally friendly mode of bulk transportation

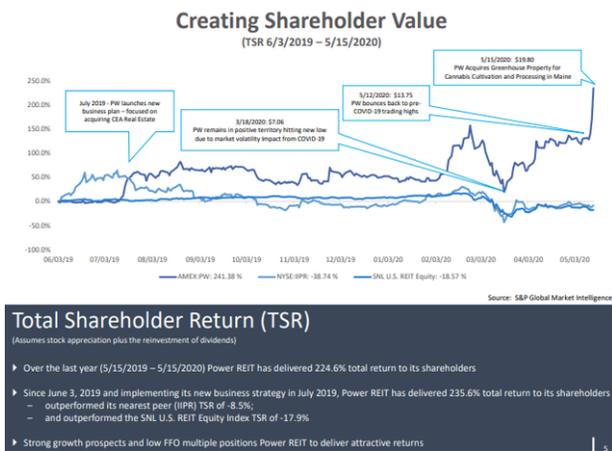
#### Social

- Cannabis is considered an alternative medical solution for a variety of ailments:
  - Seizures and spasms, multiple sclerosis, post-traumatic stress disorder, migraines, arthritis, Parkinson's disease, Alzheimer's and PTSD among others
- Diverse business owners

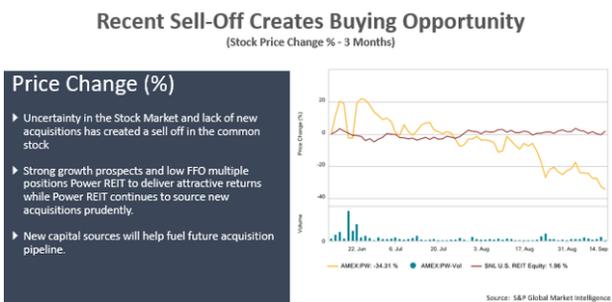
#### Governance

- Significant insider ownership for shareholder alignment
- No staggered board terms
- No Poison Pill
- Focus on Diversified Board of Directors

Source: PW Presentation



Source: PW Presentation



Source: PW Presentation

## ACTIVE INVESTING

During the first half of 2020, PW acquired four CEA real estate properties, aggregating approximately 101,000 square feet of green house and support space for the cultivation of medical cannabis. The



total capital commitment related to these assets is \$10 million.

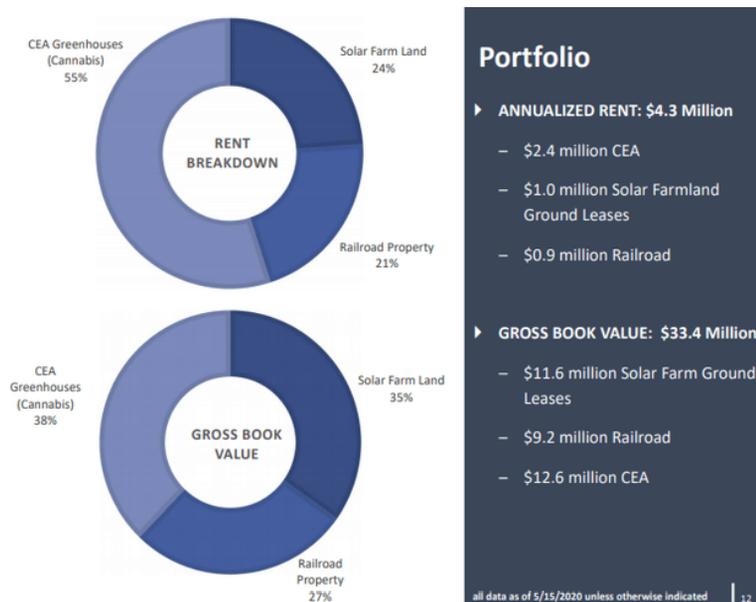
The assets have been acquired with attractive yields whereby Power REIT receives a full return of its investment over the first three years after an initial deferred rent period followed by an ongoing rental stream.

**The average yield based on straight-line rent for these acquisitions is in excess of 18%.**

Concurrent with these acquisitions, Power REIT entered into “triple-net” leases that require each tenant to pay all property related expenses including maintenance, insurance and taxes.

Each lease has a term of 20 years and provides two 5-year renewal options for the tenant with financial guarantees from affiliates of the tenant. The leases require each tenant to maintain a valid medical marijuana license and to operate in accordance with all municipal regulations in the state where they are located.

PW continues to thoughtfully and prudently execute on its strategic business by focusing on Controlled Environment Agriculture (NYSE:CEA) real estate investments. Since implementing this strategy, they have continued to expand their portfolio through accretive acquisitions and expansions that have favorably impacted their Core FFO growth.



Source: PW Presentation

Currently, Power REIT’s portfolio is comprised of:

- 6 Controlled Environment Agriculture greenhouse facilities aggregating over 131,00 square feet;
- 7 solar farm ground leases totaling 601 acres; and
- 112 miles of railroad property.

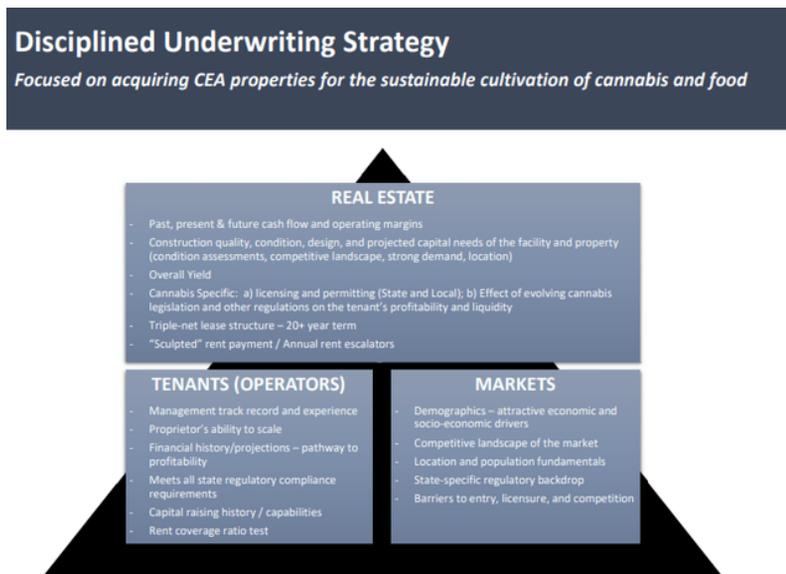
Power REIT is in various stages of negotiations on an active pipeline of acquisition opportunities that management believes could be highly accretive to Core FFO. In addition to its capital on hand, Power REIT is pursuing a variety of non-dilutive capital sources.



## DISCIPLINED UNDERWRITING

Power REIT’s investment thesis focuses on agricultural production, which they believe is ripe for technological transformation and the industry is in the early stages of an agricultural venture capital boom that, among other things, will shift food production for certain crops from traditional outdoor farms to Controlled Environment Agriculture “plant factories.”

Since a significant portion of any given CEA enterprise is real estate, the Company has identified a unique opportunity to participate in the upward trend of indoor agriculture.



Source: PW Presentation

Power REIT is focused on investing in the **CEA for cannabis** through the ownership of real estate, and therefore is not directly in the cannabis business and also not even indirectly involved with facilities that sell cannabis directly to consumers.

By serving as a landlord, Power REIT believes it can generate attractive risk adjusted returns related to the fast-growing cannabis industry, which is anticipated to offer a safer approach than investing directly in cannabis operating businesses.

**CEA for food production** is widely adopted in parts of Europe and is becoming an increasingly competitive alternative to traditional farming for a variety of reasons. CEA delivers sustainable and locally grown products, which is meeting the increased demand for this type of growing solution.

Locally grown indoor produce will have a longer shelf life as the plants are healthier and also travel shorter distances thereby reducing food waste. In addition, a controlled environment produces high-quality pesticide free products that eliminates seasonality and provides highly predictable output that can be used to simplify the supply chain to the grocer’s shelf.

## POSITIONED FOR GROWTH

Core FFO per share has more than doubled on a year-over-year basis. Core FFO totaled approximately \$555,000 for the three months ended June 30, 2020, or \$0.29 per diluted share, compared with approximately \$256,000, or \$0.14 per share for the same period in 2019.



Net income available to common stockholders increased to approximately \$410,000, for the three months ended June 30, 2020, or \$0.21 per share compared with approximately \$143,000, or \$0.08 for the same period in 2019.

### Sculpted Rent Schedule for Cannabis Properties

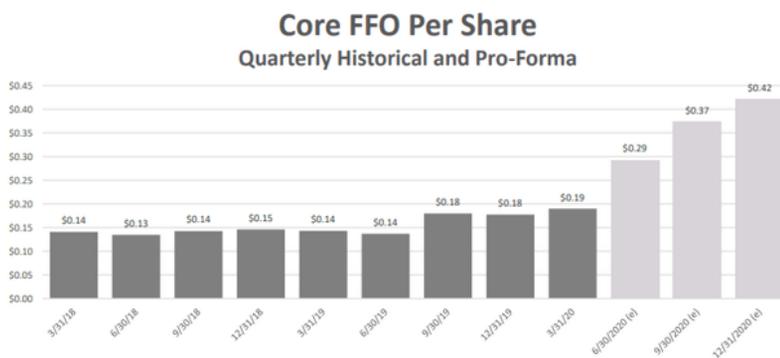
Rapid Return of Capital and Sustainable Long-Term Rent Level



Source: PW Presentation

### GUIDANCE

We are optimistic that Power REIT can outperform the guidance on its run-rate FFO guidance going forward.



### Consistent Core Funds from Operations (FFO) Per Share

- ▶ Power REIT’s existing portfolio of primarily “triple net leased” real estate provides stable operating income
- ▶ Recent acquisitions are expected to have a dramatic impact on Core Funds From Operation
- ▶ Power REIT is pursuing additional accretive acquisitions intended to continue this trend

all data as of 5/15/2020 unless otherwise indicated – assumptions on following slide

Source: PW Presentation

They have a significant acquisition pipeline that is in various stages of negotiations and are working on a capital plan that is intended to create significant shareholder value. This dynamic growth to PW’s Core FFO is a function of the attractive yields that can be achieved by investing in CEA properties and Power REIT’s relatively small size.



**We believe the common stock represents a compelling investment opportunity based on the current multiple PW trades at combined with the potential for outsized growth.**

In addition, **Power REIT's preferred stock (PW.PRA) – provides an attractive yield (>7.75%)** which is considered a Return of Capital for tax purposes which means it is not taxable on a current basis and taxes will be paid upon sale at the capital gains tax rate. This can offer an attractive investment for yield driven investors.

**PLEASE NOTE:**

**PW is a Nano-Cap with a market capitalization of \$37 million, so we consider this stock highly speculative.**

Also, CEO owns ~27% of all outstanding shares.

**Author's note:** *Brad Thomas is a Wall Street writer, which means he's not always right with his predictions or recommendations. Since that also applies to his grammar, please excuse any typos you may find. Also, this article is free: Written and distributed only to assist in research while providing a forum for second-level thinking.*

**Disclosure:** I/we have no positions in any stocks mentioned, but may initiate a long position in PW over the next 72 hours.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

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Today, 1:33 AM 

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how can an investor buy the stock; either common or preferred??

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**Brad Thomas**

Today, 7:44 AM 

Comments (48.10K)

**Author's Reply** @rjsullivan NYSEMKT: PW and PW.PRA

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**only-temporary**

Yesterday, 6:42 PM 

Comments (157)

Let's see how high this can go!

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**Brad Thomas**

Yesterday, 6:48 PM 



Comments (48.10K)

**Author's Reply** [@only-temporary](#) Good luck. I plan to interview the CEO on Friday.... Let me know if you have any questions. All the best. Brad

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**rhythmbreakdown2**

Yesterday, 4:59 PM

Comments (953)

Thank you for the update

[Reply](#) [Like](#) (1)



**Brad Thomas**

Yesterday, 6:21 PM

Comments (48.10K)

**Author's Reply** [@rhythmbreakdown2](#) You're welcome. All the best - Brad

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**fpcovers**

Yesterday, 4:54 PM

Comments (156)

Being structured as a REIT and showing positive EPS, shouldn't they be paying out dividends to maintain REIT status?

[Reply](#) [Like](#) (1)



**Brad Thomas**

Yesterday, 6:20 PM

Comments (48.10K)

**Author's Reply** [@fpcovers](#) PW has a net operating loss (NOL) of approximately \$17 million that results from the outcome of the litigation where it wrote off a rent receivable. This allows the company to maintain REIT status without paying dividends. What is also does is turn any dividends paid into a return of capital which is not currently taxable. It reduces an investors basis and therefore is only taxable upon sale and at that time the taxes are a capital gain. As mentioned in the article, PW currently pays dividends on the preferred stock which have this treatment which I believe makes the preferred a very interesting opportunity for investors. All the best. Brad

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