

Mossberg's Investor Digest

Best Idea Profile:

Power REIT (NYSE:PW)

DESCRIPTION:

Power REIT is a nearly 100-year-old company based in Old Bethpage, New York. It is a real estate investment trust that specializes in long-term real estate assets for the energy transportation infrastructure. This includes more than 150 acres of land for utility scale solar farm projects in Massachusetts and California. Additionally, its wholly owned subsidiary, Pittsburgh & West Virginia Railroad, owns railroad property that is in a 99-year lease to Norfolk Southern Corporation, and consists of 112 miles of main line road and 20 miles of branch lines.

KEY INVESTMENT CONSIDERATIONS:

Potential Value of Litigation Award – Management estimates that there is a potential upside benefit to earnings of \$14.60 per share from litigation related to lease disputes between the company's wholly owned subsidiary and both its lessee and sub-lessee. Management feels strongly about the merits of its case and remains confident that pursuing the litigation is in the company's and shareholders' best interests. Power REIT has expended approximately \$1.4 million on litigation costs, which it believes will also be reimbursable under the lease. It believes its worst case exposure is this litigation cost, offset by the value of a net operating loss if the indebtedness is written off. It may also have the opportunity to re-lease at higher rates.

Eventual Resumption of Dividend – Management has stated its intent to resume common dividends as litigation expenses decline. Prior to litigation, its historical annual dividend rate was \$0.40 per share. Furthermore, management is determined to minimize near-term dilution in order to maximize the benefits of litigation awards and resumption of dividends; it will be conservative in issuance of common stock, utilize non-dilutive capital to fund acquisitions, and fund litigation expenses through temporary suspension of the dividend.

Renewable Energy Opportunities – Power REIT is focused near-term on renewable energy. Solar is growing rapidly; there were 3.3GW of solar power installed in 2012 and 4.3GW installed in 2013 in the U.S., with more than \$10 billion of solar investments annually in the U.S. Wind farms are also growing rapidly with over \$100 billion of cumulative investment in the U.S. Other renewable opportunities include hydro and geothermal. Power REIT is focused on acquiring more

location-critical assets that have a long life, are complicated to develop, and most importantly, hard to replace or locate; resulting in captive tenants that generate predictable cash flows.

Accretive Acquisitions – Power REIT has high-quality assets with long-term predictable cash flow and low current leverage. It is poised to issue preferred stock in order to make accretive acquisitions that will grow cash flow and dividends. Management believes there are significant U.S. infrastructure investment opportunities and made two such acquisitions of solar land in December of 2012 and July of 2013.

VALUATION:

At the end of the third quarter, the stock was trading at a 24% discount to estimated net asset value. This does not include any potential upside from the litigation. With solid real estate value underlying the infrastructure and renewable energy leases, dependable cash flow, and little technology risk, this is an attractive stock that could deliver very rewarding returns.

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Investment Data (as of 12/7/13)

Recent Price	\$8.16
52-Week Range	\$7.77 - \$11.41
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	1.7 M
Average Trading Volume (3 mos)	5k
Market Capitalization	\$14 M
Cash	\$314 K
Long-term Debt	\$2.5 M
Enterprise Value (EV)	\$16 M
Book Value	\$5.44
TTM Revenue	\$982 K
P/ Revenue	14x
TTM EPS	\$(0.43)
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA

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