November 10, 2022

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Tejon Ranch (TRC-NYSE)

TRC: 3Q22 Results Benefits From Large Land Sale; Development Activities Continue To Advance

Real estate-development company TRC targets monetizing its land-based assets near Los Angeles and Bakersfield, CA. Housing demand and need for the need for increased supply chain warehouse and distribution infrastructure in this region is high, while the availability of Class A properties is limited. Design & engineering work is proceeding for a multi-family residential complex & a 629k sq ft industrial building and 495-apartment building, among other projects.

OUTLOOK

TRC's 3Q22 results benefited from the July 2022 sale of a 58-acre land parcel at the Tejon Ranch Commerce Center (TRCC), which represents the company's second largest industrial land sale to a third-party to-date in terms of size. The timing of land sales can fluctuate greatly from quarter to quarter. Importantly, development activities on various projects continue to advance and TRC ended the quarter with cash & securities of about $61.5M and $40.6M available under its revolving credit line. The company had refinanced the term loan and revolver earlier in 2022,

Current Price (11/9/22)	$17.35
Valuation	**$25.00**

SUMMARY DATA

52-Week High	**$21.48**
52-Week Low	**$14.31**
One-Year Return (%)	**-18.6**
Beta	**0.66**
Average Daily Volume (sh)	**44,607**
Shares Outstanding (mil)	**27**
Market Capitalization ($mil)	**$460**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**61**
Insider Ownership (%)	**22**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**7.3**
Earnings Per Share (%)	**31.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/S using 2022 Estimate	**N/A**
P/S using 2023 Estimate	**N/A**

Risk Level	**Low,**
Type of Stock	**Small-Value**
Industry	**Real Estate Ops**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	**$10.7A**	**$8.9A**	**$9.7A**	**$20.3A**	**$49.5A**
2020	**$10.3A**	**$4.8A**	**$13.5A**	**$9.2A**	**$37.8A**
2021	**$11.1A**	**$16.6A**	**$15.0A**	**$13.0A**	**$55.6A**
2022	**$21.0A**	**$9.3A**	**$31.5A**	**$12.0E**	**$73.8E**

EPS / Loss Per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	**$0.00A**	**$0.03A**	**$0.00A**	**$0.37A**	**$0.40A**
2020	**-$0.03A**	**-$0.01A**	**$0.02A**	**-$0.00A**	**-$0.03A**
2021	**-$0.04A**	**$0.11A**	**$0.01A**	**$0.13A**	**$0.20A**
2022	**$0.16A**	**-$0.03A**	**$0.38A**	**$0.01E**	**$0.54E**

Quarters might not add to annual reflecting rounding

Disclosures on page 8.

© Copyright 2022, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW? 3Q22 RESULTS BENEFIT FROM RECENT SIZABLE LAND TRANSACTION

3Q22 land sale

Tejon Ranch Company (NYSE:TRC) reported 3Q22 results earlier this week that exceeded our expectations. As expected, the company benefited from the July 2022 sale of a 58-acre land parcel at the Tejon Ranch Commerce Center (TRCC) to a large multinational corporation for $22.0 million. This contributed to Commercial/industrial real estate development segment revenues increasing to $22.4 million compared to $2.5 million in 3Q21. As we have noted in prior reports, the timing of land sales can fluctuate greatly from quarter to quarter. This land sale represents the company's second largest industrial land sale to a third-party to-date in terms of size.

Farming revenues were $4.8 million, down from $6.7 million, primarily lower than expected pistachio yields. TRC has filed crop insurance claims for the 2022 crop and anticipates a payment in 4Q22. At the same time, higher production costs in 2022 impacted farming segment margins, primarily reflecting inflationary pressures that generally have impacted companies and industries across the board. These include higher fuel, fertilizer and labor expense, among other factors. Mineral resources segment revenue fell 34% year-over-year to $3.1 million, largely reflecting the timing of water sales. Results from this segment can be lumpy.

The equity pick up from TRC's recognition of earnings in unconsolidated JVs increased by more than $2.0 million compared to 3Q21, primarily reflecting the company's Petro JV, which recorded improvements in operating margins. The company reported net income of $10.2 million, or $0.38 per share, compared to $0.2 million, or $0.01, in 3Q21.

Development plans advancing …

TRC is advancing its real estate development plans. For example, design and engineering work progresses for a multi-family residential complex adjacent to the Outlets at Tejon. The planned complex consists of up to 495 apartments.

TRC has master planned mixed-use residential communities in various stages of development and other real estate projects in its pipeline. When its master planned developments are completed, Tejon Ranch will have more than 35k housing units available, 35+ million square feet of commercial / industrial space and 750 lodging units. TRC also is laying the foundation for expected growth with strategic relationships with development partners and customers. The company expects new JVs for the development, construction and management of a roughly 446,400 square foot industrial building in TRCC-East to be completed in 4Q23. The company intends to continue to pursue commercial/industrial development, multi-family development, leasing, sales, and investment within TRCC and its joint ventures and to continue to invest in its residential projects, including Mountain Village at Tejon Ranch, Centennial at Tejon Ranch and Grapevine at Tejon Ranch (see below).


Mountain Village


Centennial


Grapevine

Source: http://ir.tejonranch.com

Management believes that its development plans fulfill important needs, including addressing the need for more housing in California, job creation and responsible development that is coordinated with conservationist goals.

Recent court rulings have been favorable for TRC's development plans. Objections raised in a lawsuit filed by the Tucson, Arizona-based Center for Biological Diversity (CBD) challenging Kern County's December 2019 re-approval for TRC to advance certain development plans at Tejon Ranch were rejected in December 2020 and an appeal in the case was permanently dismissed in 2021.

… With liquidity & access to capital to continue moving development forward

At the end of 3Q22, TRC had cash & securities of about $61.5 million and $40.6 million available under its revolving credit line. The company had refinanced the term loan and revolver earlier in 2022, extending maturities and increasing its revolving credit facility ($45 million compared to $35 million under the prior revolver).

The company also intends to leverage funding from partners and debt financing and/or the sale of rights, among other financial resources. Moreover, TRC's agribusiness and commerce business units are operational and generate recurring revenue.

VALUATION

We view ongoing development as positives and potential catalysts that are not fully reflected in the TRC share price. Tejon Ranch is in the early stages of its real estate development plans, which makes the use of certain traditional valuation methods such as P/E, multiple of cash flow or a dividend discount model, among other methods, inappropriate. Book value, for example, does not reflect the value of the land once development plans are further along.

We believe TRC shares should be valued on a price-to-acre basis. With the aforementioned shortage of housing in the state, we do not believe the current share price accurately reflects the potential value of the real estate once development plans are more advanced.

TRC owns 270,000 acres. At the current price of TRC shares, this equates to a valuation of about $1,400 per acre. This is down from a valuation range of about $2,200 to $3,800 for TRC in recent years and significantly below nearby relative land values.

For instance, according to the Federal Housing Finance Agency, the average land value per acre for *residential* land in the state of California exceeds $400,000. Given that TRC's asset is largely undeveloped except for TRCC and that the Federal Housing Finance Agency's metric includes expensive urban cities such as San Francisco and Los Angeles that drive the state average up, we would not expect TRC to command a similar valuation at this point. Nevertheless, we believe it points to just how under-valued TRC is, as reflected in the current share price. Measured on a price-to-acre basis, TRC even falls below California *farm* values, which command average valuations of about $10,000 per acre, according to the USDA.

TRC initiatives discussed in this report and other recent updates increase the value of TRC's land holdings, in our view. Our $25 per share valuation implies a valuation of just over $2,400 per acre, which represents a substantial discount to the valuations implied by other real estate valuations noted above. Even based on *only* the land that has been approved for development and/or is currently producing revenue from agribusiness and other operations (which we think understates TRC's potential), the $25/share expected near-term valuation implies a value of less than $8,400 per acre, a steep discount to the above-noted average $10,000 based on USDA data and only a fraction of the value accorded residential property within the state.

We also expect the value of land to increase significantly, and of TRC shares, as TRC continues to advance its development plans. We also expect multiple expansion on TRC shares as the company hits certain milestones in its development objectives.

RISKS

Risks to TRC achieving its objectives, and to our valuation, include the following.

- There is the risk of further economic disruption and potentially recession, we believe.
- The real estate development industry is highly capital intensive. TRC might not find funding sources at the rates it expects or as soon as it expects.
- TRC is subject to the need to obtain regulatory approvals and permits.
- The value of the land could fluctuate depending on several factors, including the regional economy and other competing development plans by other developers.
- The I-5 is a critical part of the TRC infrastructure and traffic / roadway congestion could impact the value of the company's land.
- TRC could be vulnerable to other litigation risk that could impede growth.
- Water rights are often an issue in California and can impact land values. TRC has complex water agreements and both buys and sells water.
- The company's agribusiness operation is cyclical and affected by commodity cycles.

PROJECTED INCOME STATEMENT

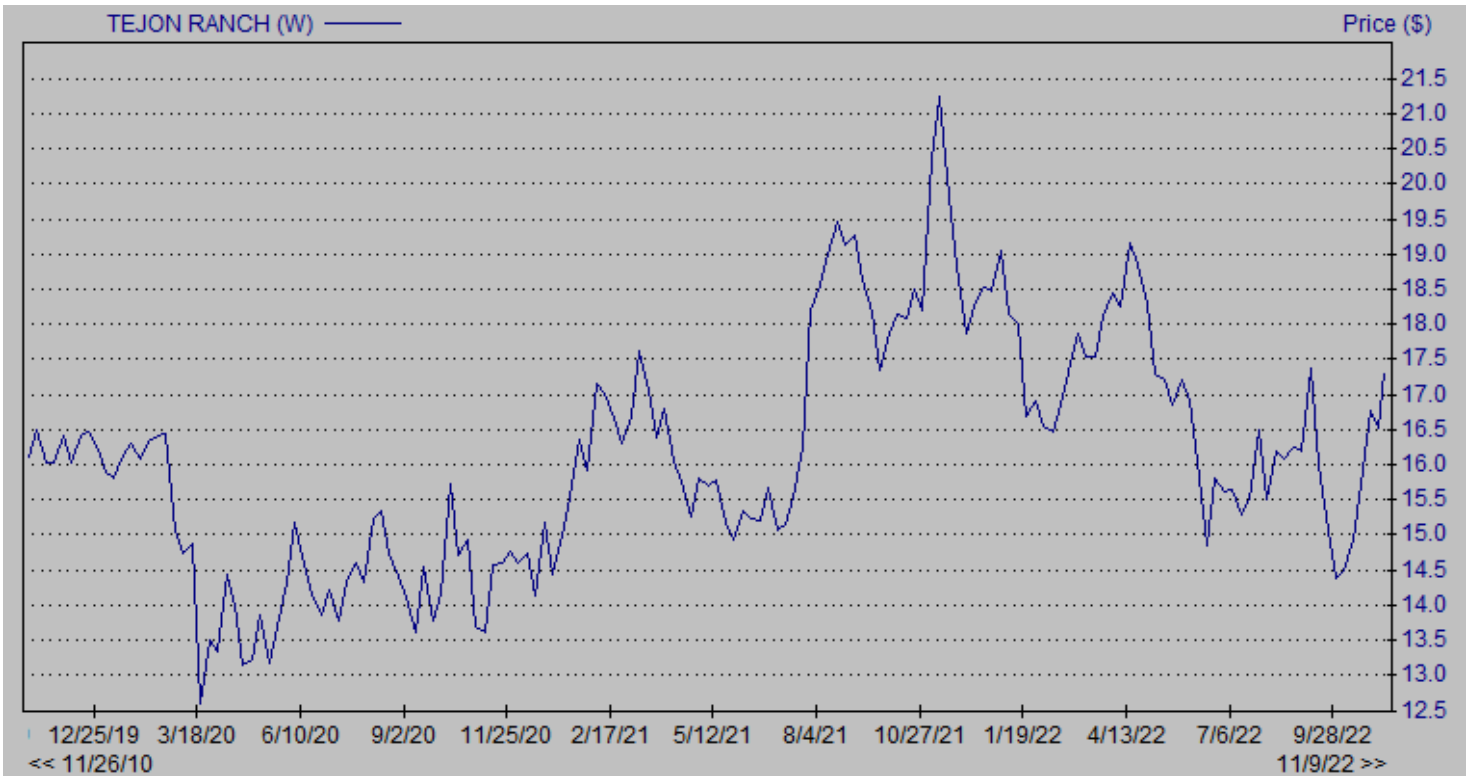
Tejon Ranch Income Statement & Projections ($000)

	2019	2020A	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E
Real estate - commercial/industrial	$16,792	$9,536	$2,228	$8,126	$2,466	$6,656	$19,476	$7,349	$2,462	$22,352	$2,487	$34,650
Mineral resources	9,791	10,736	7,176	7,404	4,774	1,633	20,987	11,968	4,131	3,139	3,934	23,172
Farming	19,331	13,866	607	279	6,726	3,427	11,039	655	1,921	4,776	4,570	11,922
Ranch operations	3,609	3,692	1,043	829	996	1,243	4,111	1,048	755	1,208	1,046	4,057
Total revenues	**49,523**	**37,830**	**11,054**	**16,638**	**14,962**	**12,959**	**55,613**	**21,020**	**9,269**	**31,475**	**12,037**	**73,801**
Real estate - commercial/industrial	12,961	7,122	1,552	4,712	2,331	3,358	11,953	2,736	1,822	6,845	2,072	13,475
Real estate - resort/residential	2,247	1,612	553	439	322	409	1,723	423	423	372	398	1,616
Mineral resources	5,818	6,414	5,047	4,253	3,025	1,234	13,559	7,157	2,445	1,745	2,875	14,222
Farming	15,251	15,103	1,478	1,203	7,296	4,139	14,116	1,762	3,462	8,752	4,180	18,156
Ranch operations	5,316	4,896	1,187	1,142	1,182	1,168	4,679	1,315	1,250	1,143	1,018	4,726
Corporate expenses	9,361	9,430	2,291	2,364	2,021	3,167	9,843	2,415	2,185	1,630	2,196	8,426
Total expenses	50,954	44,577	12,108	14,113	16,177	13,475	55,873	15,808	11,587	20,487	12,739	60,621
Operating income / (loss)	(1,431)	(6,747)	(1,054)	2,525	(1,215)	(516)	(260)	5,212	(2,318)	10,988	(702)	13,180
Investment income	1,239	884	7	9	5	36	57	17	79	204	102	402
Gain (loss) real estate sales		1,331	-	-			-	-	-		-	-
Other (loss) income	(1,824)	110	64	43	24	33	164	918	(91)	211	20	1,058
Total other income	(585)	2,325	71	52	29	69	221	935	(12)	415	122	1,460
Operating income/(loss)	(2,016)	(4,422)	(983)	2,577	(1,186)	(447)	(39)	6,147	(2,330)	11,403	(580)	14,640
Equity pickup	16,575	4,504	(59)	1,365	1,510	6,386	9,202	1,213	1,663	1,991	1,092	5,959
Pretax income	14,559	82	(1,042)	3,942	324	5,939	9,163	7,360	(667)	13,394	512	20,599
Taxes	3,980	829	21	1,118	98	2,584	3,821	3,046	(5)	3,221	143	6,405
Net income (loss)	10,579	(747)	(1,063)	2,824	226	3,355	5,342	4,314	(662)	10,173	369	14,194
Minority interest	(1)	(7)	(8)	2	7	(7)	(6)	7	5	(11)	(6)	(5)
Net income	10,580	(740)	(1,055)	2,822	219	3,362	5,348	4,307	(667)	10,184	375	14,199
Loss/share - EPS (FD)	$0.40	($0.03)	($0.04)	$0.11	$0.01	$0.13	$0.20	$0.16	($0.03)	$0.38	$0.01	$0.54
Average shares out (Mns)	26.1	26.3	26.4	26.4	26.5	26.5	26.4	26.5	26.5	26.5	26.6	26.5

Source: Company reports, Zacks estimates

© Copyright 2022, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2022, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.