Why Cominar Real Estate Investment Trust Is a Screaming Buy

Description

The middle part of 2013 wasn't a good time to hold real estate investment trusts.

The entire sector sold off aggressively as the market seemed sure higher interest rates were just around the corner. In just a few short months, some of the strongest names in the sector were down more than 20%. Shares of **RioCan Real Estate Investment Trust** (TSX: REI.UN) fell from more than $28 each to a low of just over $23. **H&R Real Estate Investment Trust** (TSX: HR.UN) didn't fall quite as much, but the company still shed nearly 15% during the same time. Even with a distribution of 5-6%, it's hard to make up for such a huge price decline.

For patient investors, the great REIT selloff of 2013 is nothing but a memory. Both RioCan and H&R have recovered, and are close to hitting new highs. In fact, pretty much the entire sector has recovered, with one notable exception.

Shares of **Cominar Real Estate Investment Trust** (TSX: CUF.UN) just haven't budged. The company hit a high of nearly $24 back in May of last year, and shares have languished since. They currently sit at $19.28 each.

There's no reason for Cominar's shares to be this cheap. The company is well ran, is actually raising its distribution, and has at least 20% upside. Plus it pays one of the highest dividends on the entire TSX.

One of the reasons suggested why investors are avoiding Cominar is because of the company's Quebec roots. Out of the company's 526 properties, more than 400 are located in La Belle Province. The company has been working hard to expand operations outside its home province — to a certain degree of success — but it's still viewed as a Quebec centric play.

The company is controlled by the Dallaire family, which holds more than 7% of the units in the company, representing approximately $200 million of the family's wealth. Investors should be happy that the founders still have so much skin in the game.

From a book value perspective, shares are very cheap. The company trades at a price to book ratio of just 0.86, a pretty big discount to its peers, which are mostly in the 1.0 to 1.2 range. All it needs to do is recover to just slightly over book value to give investors a 20% capital gain, which isn't out of the question.

It also pays one of the most generous dividends in the sector, currently yielding 7.6%. The monthly distribution looks to be pretty safe, since the company just announced a 2% increase, and the payout ratio is under 90%.

Cominar is cheaper than its peers, pays a great dividend, and has a founding family with a bunch of shares. And those aren't even the main reason why you should buy the stock.

Huge breaking news

Last week the company announced it was acquiring 15 landmark properties in Ontario and Quebec from Ivanhoe, a real estate subsidiary of the Caisse de dépôt. It's paying $1.5 billion for the package, which includes 10 shopping centers and five other office and industrial locations. The cap rate on the deal is 6.5%, which is pretty attractive in this low interest world.

While this acquisition pushes up the company's debt levels in the near term, over the long haul it's a terrific buy. It's expected to be immediately accretive to cash flow, and the properties already have a occupancy level comparable to the rest of Cominar's portfolio. Management even expects to be able to swallow the acquisition and stay under its self-mandated 90% payout ratio target.

By staying near home, Cominar has found an opportunity to increase its assets by more than 25% all while maintaining discipline on its payout ratio. It trades at a discount to its peers, and has a terrific yield. There are many reasons why investors should buy Cominar, this latest acquisition is just icing on the cake.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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