Don’t Believe the Sell-Off; Boardwalk REIT Is a Buy

Description

Over the last few months, there’s been one story that’s dominated headlines in Canadian business — the decline of energy.

After spending months watching their oil stocks decline, many investors are left scratching their heads on each subsequent day, wondering if the bottom has finally arrived. And yet, that day doesn’t seem to come. The price of oil might rally for a day or two, but will inevitably be pushed back down by some other piece of bad news.

Needless to say, it’s a trying time to be an investor. If you’re anything like me, you’re spending your time poring over energy company balance sheets, trying to figure out which ones are the most attractively valued, and then whether they have a fighting chance to survive if oil remains depressed in 2015.

But this sell-off hasn’t just affected energy companies. Some of the usual suspects have rallied on the news — like the airlines — but there are also some stocks being negatively affected by energy. One of these companies is **Boardwalk REIT** (TSX: BEI.UN), which owns some 34,000 apartments, spread out over four provinces. Approximately 60% of its portfolio is located in Alberta, with the majority in Calgary and Edmonton.

That last sentence is exactly what’s causing the decline in Boardwalk’s share price, which is down more than 10% in the last month alone. Lower oil prices leads to oil patch layoffs, which leads to economic weakness in the province. It’s hard for folks to pay the rent if they lose their jobs.

But in reality, these fears are incredibly overblown. Sure, Boardwalk will experience some weakness if energy remains weak, but it won’t be so bad.

For instance, let’s take a quick look at the company’s balance sheet, which might be the finest of any REIT in the country. The company lists its apartments at a book value of approximately $5.8 billion. As of September 30, it only owed $2.18 billion against them, as well as holding $130 million in cash. That’s a net debt to equity ratio of just 35%.

The company's payout ratio is outstanding as well. Granted, it only pays a 3.3% dividend, but investors have been treated to four dividend hikes since the beginning of 2011, and can look forward to a special dividend of $1.40 per share at the end of the year. Adjusted funds from operations came in at $2.29 per share over the first nine months of 2014, giving Boardwalk a payout ratio of just 67%. That's one of the lowest in the REIT universe as well.

Instead of expanding aggressively during this era of easy credit, Boardwalk execs decided to take a different path, investing heavily in the quality of its units. The result has been higher rents, fewer vacancies, and tenants that stay longer. Annual turnover has dropped from 44% in 2008 to less than 36% in 2013, while occupancy rates have gone from 95% to almost 99%.

Essentially, Boardwalk has been investing heavily into making its units into homes, not just disposable apartments. It furthers this by hosting things like tenant barbecues and other events to instill a sense of community.

Although the company hasn't been acquiring many buildings, it's still expanding by using some of its excess land to build new units. Projects have just been completed in Calgary and Regina, with strong demand from tenants, filling up almost immediately. These projects have cap rates of approximately 7%, a nice premium over average in each market. Look for these projects to continue, albeit at a slow pace.

Even though Alberta's economic picture is starting to look dicey, Boardwalk is perfectly positioned to weather the storm. It has a solid balance sheet, low payout ratio, a growing dividend, and apartments that people want to live in. Plus, if housing values go down, it should get a boost from more people avoiding buying. For long-term investors, this price decline should be a good buying opportunity.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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