Why Boardwalk REIT Is a Great Way to Bet on Oil

Description

Many investors bullish on oil are starting to get frustrated.

The last time oil declined so sharply back in 2008-09, it was followed by an equally violent move upwards. Investors in the commodity still felt the pain, but it was short lived. Just a few months after crude bottomed out below $40 per barrel, it was back up to $70. And just a few months after that, it was flirting with $90 per barrel.

It almost seemed like crude was going to do the same thing during this bear market. After crude bottomed at just over $40 per barrel, it rallied almost $20 in just a few weeks, settling at just above $60 per barrel. But instead of continuing its climb, crude has settled into a range, stubbornly staying in the high $50 to low $60 range.

This has caused many previously bullish oil investors to rethink their positions, especially in some of the riskier names in the sector. Oil producers sitting on a lot of debt will need the price of crude to recover to $70-75 per barrel before being able to breathe easy. We've lingered at current levels long enough that many investors are questioning just how long it'll take for crude to recover.

Many of these investors are looking at alternate ways to play oil's recovery. My best idea for that is to buy shares in **Boardwalk REIT** (TSX:BEI.UN), the beleaguered owner of apartments primarily in heavy oil areas.

Why Boardwalk?

As you can imagine, the last little while hasn't been good for Boardwalk shares.

After peaking at more than $71 in October last year, the decline in oil has sent shares reeling. They've declined nearly 20% to current levels of near $58, largely mirroring the decline in crude, albeit not as badly.

But looking at the underlying numbers, the business doesn't look so bad. The company recently reported quarterly results that were solid, as usual. The occupancy ratio declined ever so slightly from

98.0% to 97.8%, but it's still among the best in the sector. The company was also able to increase its rental revenue 3.2% compared with last year, while expenses only increased 0.6%. That translated to a 13% increase in adjusted funds from operations per share.

Boardwalk took a number of steps when times were good to prepare for the next downturn. Instead of making acquisitions at low-cap rates like competitors, the company paid down debt and invested in sprucing up some of its properties. Because of this prudence it now has a great balance sheet, with a debt-to-assets ratio of just 36%. That's among the best in the industry.

Although the company's dividend is just 3.5%, there are reasons to prefer it over some of the larger dividends in the sector. Firstly, there's the dividend growth. The company has hiked its payout five times since 2010, from $0.15 per share to $0.17 per share. And secondly, its payout ratio is comfortably less than 70%, meaning the dividend is still affordable even if earnings take a hit.

And finally, investors are getting a deal on a net asset value basis. According to a recent report from management, they figure the gross value of its properties is in excess of $111 per share. Take off $42 per share in debt, and the net asset value is $69, approximately 19% higher than today's price.

Boardwalk could still fall if oil tanks again or if the Alberta market suffers a bigger downturn than expected. But people still need a place to live, and Boardwalk apartments are often among the most coveted. And if you add in the dividend and the solid balance sheet, the company looks to be a pretty good option on oil, especially when comparing it with some of the risky producers.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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