



Should Investors Buy Boardwalk REIT Shares at a 52-Week Low?

Description

As the old expression goes, investors should buy low and sell high.

Of course, that's often much easier said than done. As a value investor, I've invested in plenty of stocks over the years that satisfied the "buy low" part of the equation, except they promptly went lower as soon as I invested my cash. That's one of the big issues when investing in depressed parts of the market.

Boardwalk REIT ([TSX:BEI.UN](#)) is one such company. Shares of the large apartment owner have been beaten down, along with the price of crude, albeit at a much slower pace. After reaching an all-time high of more than \$71 in late 2014, shares have retreated significantly, currently trading at just over \$55 per share. That's pushed up the current yield to 3.7%, which is the highest it's been in years.

Is now a buying opportunity? Or is Boardwalk destined to become one of those value stocks that heads even lower? Let's take a closer look.

The skinny

The main reason for Boardwalk's decline is the price of crude. Some 57% of the 34,626 apartments it owns are located in Alberta. These apartments have recently rented for higher prices compared with ones in other provinces, which means that 65% of the company's net operating income comes from Wild Rose Country.

With the energy sector in shambles, Alberta is not looking like a nice place to do business.

But at least so far, Boardwalk is still doing fine. Last week the company released second-quarter earnings that were hardly a disaster. Total rental income rose 2.7% thus far in 2015, which translated into funds from operations of \$0.94 per unit for the year so far. That's an increase of nearly 10% compared with last year. It also translates into one of the lowest payout ratios in the REIT world, paying out just 62.3% of funds from operations.

Investors are also getting a good deal on a net-asset-value basis. As of June 30th, the net-asset value

of each Boardwalk share was \$69.79, which includes the company's fixed assets and the cash on its balance sheet. That's a premium of almost 15% compared with today's share price.

Boardwalk also has a stellar balance sheet. Debt as a percentage of assets is just 36.5%, which is much lower than its peers, which typically finance their buildings at about 50% loan-to-value. One reason why the debt is so low is because the company mostly sat on its hands over the last few years, refusing to pay top dollar to acquire new apartments with poor cap rates.

Instead, Boardwalk invested in its current portfolio, doing things like improving curb appeal, renovating tired units, and creating common areas in an attempt to attract long-term renters. It's a strategy that continues to work, with an occupancy ratio of 97.4%. Yes, that's down slightly from last year's occupancy of 98.5%, but it's still a very good number.

In summary, I'll say this. Besides certain pockets of weakness in areas like Fort McMurray, it's pretty much business as usual for Boardwalk.

Will shares go lower?

Just because Boardwalk is a good operator doesn't mean shares won't go lower. After all, energy-rich Alberta is a big part of the company's profit, and any prolonged weakness there could really affect the bottom line.

But on the other hand, it looks to me like Boardwalk might be a way for skittish energy investors to bet on a recovery in the sector. Even if it takes years for energy to come back, Boardwalk will still likely deliver pretty consistent profits. People need a place to live, and as a former Calgary resident, I know firsthand that Boardwalk's units in the city will still be in demand. Calgary will still retain most of its energy jobs no matter how long the slowdown stays.

Boardwalk shares could very well head lower if the price of crude continues to be weak. But the company is still delivering solid results, has great properties, a good balance sheet, and management that's been through this mess before. It's obvious Boardwalk is a great company just going through a rough patch.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

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

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