



Like Yield? Cominar Real Estate Investment Trust Pays 9% Annually

Description

The TSX Composite Index has struggled thus far in 2015, falling more than 8% since the beginning of the year and more than 10% since hitting its yearly high in April.

Commodities have been the big culprit. The energy market continues to be weak as investors have realized we're not about to see a v-shaped recovery in oil like we did in 2009. Other commodities like copper, silver, and coal have struggled as well, and the world is still awash in natural gas.

Because of the weakness in the energy market, any stock associated with Alberta has also been crushed. When there's less energy money around, people are less likely to spend on consumer discretionary products. Thus, stocks like **AutoCanada** and **Boston Pizza** have performed poorly.

One interesting casualty of this market has been the REIT sector. It's almost understandable for investors to sell off REITs with a large exposure to Alberta, but even ones with a very minimal exposure to the province are taking it on the chin.

This has created a terrific opportunity for income investors. Some of Canada's best REITs are on sale, with yields surpassing 6%, 8%, and even 10% in certain cases.

Cominar Real Estate Investment Trust (TSX:CUF.UN) is one of these opportunities. Here's why investors should load up on this 9% yielder.

Undervalued assets

Although I'm firmly convinced that residential real estate in Canada is in a bubble, I don't think the kinds of properties that Cominar owns are anywhere close to bubble territory.

Why? Because the people who buy office buildings, retail space, and industrial facilities are much smarter investors than the average wannabe landlord who buys a condo or two. These guys look at cap rates, rental yields, and projected occupancy. The amateur landlord just looks at appreciation over the last decade and doesn't want to miss out.

Cominar has high-quality assets. It owns more than 550 properties and 46 million square feet worth of leasable space across Canada, with the vast majority of its property located in Quebec. It is the province's largest landlord. The company also owns property in Ontario and Calgary, but the Calgary exposure is tiny compared with its presence anywhere else. Investors shouldn't worry about it.

The company has a book value of more than \$21 per share, far higher than the current \$16.30 share price. Not only are investors getting a good portfolio of real estate assets, but they're buying it for about 80 cents on the dollar.

Sustainable yield

A 9% dividend is great—assuming it's actually sustainable. Fortunately for income investors, Cominar looks to have a pretty secure payout.

Thus far in 2015, the company has earned \$0.89 in funds from operations per unit, while paying out \$0.735 per share in dividends. That's a pretty comfortable payout ratio of just 82%.

It gets better. Since so many of Cominar's shareholders take advantage of the company's dividend reinvestment plan—which offers a 5% “bonus” for investors who choose to take their dividends in the form of new shares—the cash payout ratio is right around 65%. That frees up cash that is put to use paying down the company's debt.

Insider ownership

There are two very smart groups of investors who have large stakes in Cominar.

The first is Quebec's pension giant Caisse de dépôt, which took more than \$250 million worth of shares when Cominar acquired \$1.5 billion worth of property from it in 2014. That position makes it Cominar's largest shareholder, owning about 7% of shares.

Narrowly behind is the founding family of Cominar, the Dallaire family, with an ownership stake of a little under 7%. That's worth about \$200 million these days, and is actually pretty rare in the REIT world.

Cominar has many of the things investors should be looking for. It has solid earnings, good assets, and a great dividend. For those reasons, it looks to be a pretty easy decision to add this wealth builder to your portfolio.

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