Boardwalk REIT: Should You Buy This Beaten-Up Former Darling?

Description

The decline in oil has hit dozens of Canadian companies hard.

It isn't just the energy companies that are struggling. Stocks with exposure to Alberta are dropping almost as quickly as the oil producers, even if results haven't been so bad. Investors are concerned that oil's weakness is about to turn Alberta's mild recession into a doozy.

Perhaps the market is right and Alberta is heading for a major recession. But as we all know, these types of bear markets don't last forever. Oil will eventually recover, bringing these stocks up with it. I suspect that in three to five years investors will be disappointed that they missed out on some great buying opportunities.

Really, the only question investors have to ask themselves is whether or not a company is well equipped to survive the downturn. If that's assured, there's little doubt the stock will be higher the next time oil trades at above $100 per barrel.

Is **Boardwalk REIT** (TSX:BEI.UN) such a stock? I think so. Let's take a closer look.

High quality

Boardwalk might be the best-managed REIT in Canada. I don't say that lightly, since Canada is full of great REITs with solid management teams.

During the recent apartment boom, it would have been easy for Boardwalk's management to pay the inflated prices that buildings were commanding. They showed discipline, sitting on their hands while other companies were aggressively buying at terrible cap rates.

Instead, Boardwalk invested in its existing units. It renovated. It added amenities like playground equipment and put on events like tenant barbecues. It focused on making its apartments places that people want to live.

And it's been working. The company consistently gets rents that are above the average, and it has high demand from tenants. I can speak from experience; I tried to rent a Boardwalk apartment in Calgary a few years ago and was told the waiting list was 20 people long. That was during the boom time, but still. It's obvious the strategy is working.

The strategy also kept vacancy low. With approximately 60% of its units in oil-rich Alberta, occupancy was sitting at close to 98%. But even though Alberta's economy has been weak for months now, total occupancy for the recently completed third quarter was still 96.7%.

The financials

Results have been good, too. Through the first nine months of 2015, Boardwalk has generated $2.46 in adjusted funds from operations (AFFO), an increase of more than 7% compared with the same period last year. Revenue was up 2% as well. At $47 per share, shares are trading at a little more than 14 times AFFO, which is the cheapest the company has been since 2009.

Boardwalk's 4.4% yield is one of the safest dividends out there. The company has paid out just 62% of its AFFO so far this year, which is exceptionally low for a REIT. Management plans to use the rest of its excess earnings to improve the balance sheet and buy back what they view as undervalued shares.

Boardwalk has one of the best balance sheets in the business. The company owes just $2.2 billion worth of debt on property worth $5.5 billion. That's a 40% debt-to-assets ratio, which is far under most REITs, which are usually closer to a 50-60% debt-to-assets ratio.

Boardwalk is also sitting on some $250 million in cash, proceeds that came from selling its portfolio in Windsor. Traditionally, the company has paid out a special dividend at the end of the year whenever it sells something like that; at the end of 2014, it paid out $1.57 per share.

Companies like Boardwalk don't go on sale very often. Investors would be smart to take advantage of this temporary weakness and load up on shares.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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