Artis Real Estate Investment Trust: Don’t Miss Out on This Great Opportunity

Description

As a deep-value investor, I spend a lot of time looking at companies with warts.

I want very little to do with most of them. For the most part, the market is fairly efficient, meaning these companies are priced like bankruptcy is imminent because going to zero is a real possibility. Most of these companies have good assets, but they’re usually encumbered by so much debt that there’s a very good possibility that equity holders will end up with nothing. Folks who hold the debt might end up doing okay, but it’s bad news to be an equity holder.

These companies often trade for tantalizing discounts to book value. But investors can’t just blindly believe how an asset is recorded on the books. They need to dig deeper and figure out the true value. Only then can they make an informed decision as to what the assets are worth.

This often leads to certain assets, quite often real estate, that are recorded on the books as a mere fraction of what they’re worth. This can be great news for an enterprising value investor, providing the company has a plan to monetize the real estate. If not, and if the real estate is a vital part of the business–like in the retail sector–you might as well let the opportunity go.

REITs are a little different. Each quarter, the company is required to re-evaluate what its properties are worth and make adjustments accordingly. Since the management of REITs are experts in the business, the market trusts that they’re pretty accurate when it comes to valuing their assets.

Because REITs are primarily income investments, the market often won’t care about the underlying value of the real estate. All investors care about is the certainty of the income. If investors view the dividend as being suspect, an opportunity opens up for astute value investors to pick up assets for 20%, 30%, or even 40% off.

Such an opportunity is presenting itself today with **Artis Real Estate Investment Trust** (TSX:AX.UN).

The opportunity

Artis is one of Canada’s largest owners of real estate, owning more than 27 million square feet in gross leasable space. It has 190 properties located in Canada and 56 in the United States. The portfolio consists of 50% office space, 26% retail, and 24% industrial. Approximately 30% of its locations are in Alberta, with 20% located in Calgary. At this point in the energy cycle, Alberta is not a market you want to be in.

But Artis's position in Calgary isn't that bad. It has long-term leases in place for the majority of its tenants, with only 1.1% of the REIT's total income in danger of being lost from the Calgary office market in 2016.

In 2015 the company is on pace to earn $1.30 in adjusted funds from operations per unit. In 2016 management projects those earnings to increase to $1.33 per share. Artis pays $1.08 per share in annual dividends, putting its payout ratio at a projected 81% for 2016.

Artis currently pays a dividend of 8.5%, which is quite high for a stock with an 81% payout ratio. It offers investors a nice combination of a high yield and a cushion just in case the downturn in Calgary lasts years.

I've saved the best for last. Currently, shares of Artis trade hands for $12.76 per share. As of November, the company's net asset value is $16.30 per share. Thus, investors who buy today are getting assets at nearly 28% off.

And just in case you didn't think that was undervalued enough, consider this: if Artis can hit its target of $1.33 per share in adjusted funds from operations in 2016, you're picking up shares for just a 9.6 times multiple. It isn't very often any company gets that cheap.

It could take years for Calgary's office market to recover. But in the meantime, Artis shareholders are being paid an 8.5% yield to wait. Cheap assets plus getting paid to wait? Sounds like a match made in heaven for value investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)

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Date
2025/07/08
Date Created
2015/12/22
Author
nelsonpsmith