Is Dream Office Real Estate Investment Trst a Secure Income Investment?

Description

During tough times in the market, one of the easiest ways to keep your sanity is to see income coming into your portfolio. The more income coming in, the more gun powder you have to work with in acquiring otherwise inexpensive and beaten-down shares of stock. But not all income stocks are created equal. While on the surface they may appear solid because of the yield, underneath they could be ticking time bombs.

Is **Dream Office Real Estate Investment Trst** (TSX:D.UN) one of those amazing income stocks with its 14% yield, or is it a ticking time bomb?

The answer is that it is both. There is no way that Dream Office is going to be able to pay its dividend; that's a fact that even the company has admitted. Its expected adjusted funds from operations (AFFO) in 2016 is $2.25. Its dividend is $2.24. That leaves a single penny between what it has to pay investors and what it will bring in, which is definitely not a lot.

Therefore, to ensure that the company is able to keep itself afloat, I expect the dividend to be cut. There really is no way around that unless something turns around in Calgary. Since oil prices are projected to stay low, I expect that revenue won't increase much, thus necessitating a dividend cut.

If the yield were to be cut in half, investors would still be getting a 7% yield, which is better than many REITs. And you'd be getting a secure dividend. Right now its payout ratio is close to 100%, which is dangerous. To keep the dividend going at its present value, the company would need to take on more debt. Instead, if the company cut the dividend the payout ratio might only be 50-60%, which is much more manageable.

Besides, with this REIT, it's not just about the income, but also because it is incredibly cheap and should be worth a lot more. According to management, the net asset value per share is $32.78. What that means is that, based on the value of all its properties, the stock should trade over $32. Yet it trades at $15.86. That means that the shares are worth only 48% of what the company actually owns.

While things are rough in the energy-rich parts of the country, Dream Office still generates significant revenue in those regions. Occupancy in Calgary is right around 90% and close to 19% of the company’s revenue comes from it. While Calgary is hurting, the assets that Dream Office has in the city are still worth a lot. Based on its $2.25 AFFO for 2016, the company trades at 6.5 times AFFO.

All told, the way to look at Dream Office is rather straightforward … you have the ability to buy assets in many of the biggest Canadian cities at a significant discount. While your income will likely be cut at some point in 2016, the value of those assets more than makes up for the drop in income.

When Calgary and other parts of Canada experience an economic recovery, the buildings that Dream Office owns will gain stronger tenants, which should send shares of the stock much higher. In the short term, it’ll be a little painful, but in the long term, this could be the start of a strong real estate portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/19
Date Created
2016/02/01
Author
jaycodon