Dream Office Real Estate Investment Trst Is Now a Safe Investment

Description

If you had asked me if **Dream Office Real Estate Investment Trst** (TSX:D.UN) was a safe stock to own about a month ago, I wouldn't have been too sure. When the good times were here, it was doing amazing. But when bad times hit, it really started to suffer.

However, Dream Office made a smart move at the end of last month when it decided to cut its dividend from $0.1867 per share down to $0.125 per share, an approximate 33%. Before the cut, this company was paying a yield of 14.7%. While no one likes to see a cut, the company couldn't afford its dividend.

Each year it was paying $2.24 in dividends. Its 2015 funds from operations were $2.83; however, because oil prices tumbled and some of its tenants didn't renew, it expected that its funds from operations would only be between $2.20 and $2.30 in 2016. Needless to say, it couldn't afford its dividend.

But with the dividend cut, the company is now in a good position to solidify and secure itself. The company plans to sell non-core assets worth $1.2 billion over the next three years, which will strengthen the balance sheet.

With all of that behind us, we should focus on the fact that Dream Office is an incredibly underpriced stock. According to management, the net asset value (the value of all its real estate) per share is $32.78. Yet the stock only trades at $20.50.

That's a 36% discount.

Therefore, if investors were to start valuing these assets appropriately, the stock should increase by 36%. But when have the markets ever done what they're supposed to do?

Fortunately, management has a plan. With the $1.2 billion that it will earn, it'll pay down some debt. It currently has a 48% debt-to-asset ratio, which is certainly not bad. But if it can get that lower, the balance sheet will be stronger. On top of that, I expect Dream Office to aggressively buy back its shares. If it's going to trade at such a discount, the company might as well reduce the number ofshares.

All of this means that Dream Office is actually in a really good place. With oil prices starting to improve, the company should be able to keep its current tenants in place. Further, with it selling some of its assets for more than they're valued at, it'll increase its cash, so it can buy back shares and reduce the debt.

Therefore, I believe investors should buy this stock with the expectation that it will increase in price by 30% over the next few years. And while investors wait for that to happen, they can still receive a pretty lucrative $0.125 per month distribution of the profits.

Two months ago, I believed this stock had significant risk. However, now that its cash problems are figured out, I think investors should buy this company.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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