



Back Up the Truck: Why Now Is a Great Time to Buy Boardwalk REIT

Description

Warren Buffett has become very wealthy by doing one thing really well: he finds companies with great long-term potential and vacuums them up.

Buffett doesn't really care what he pays, as long as he knows the value over the long term is there. Like any value investor, he would prefer to pay less, but the price today isn't that important to him as long as the thesis makes sense.

Regular investors can easily borrow a page from Buffett's book. But unlike the Oracle of Omaha, who really only reacts when deals are brought to him, retail investors like you and me can buy shares of any company we want. We're not big enough to exert much influence at all.

I believe **Boardwalk REIT** ([TSX:BEI.UN](#)) exhibits many Buffetesque qualities. Here's why smart investors should seriously think about taking a buy-and-hold-forever mentality with the apartment operator.

Quality assets

Boardwalk is the owner of nearly 33,000 different apartments across Canada with a concentration of assets in Alberta, the company's home province. Some 65% of the company's net operating income comes from Alberta. In total, these apartments span more than 28 million square feet.

The company differentiates itself from competitors in a few different ways. Management is committed to making Boardwalk properties nice places to live. The company is constantly making capital improvements. An emphasis has been placed on curb appeal. It has struck deals with companies like **Telus** to give tenants a special deal on things like Internet or television services.

The strategy appears to be working. Boardwalk has total occupancy of 97.4%, a terrific number considering the company's outsized exposure to the Alberta market. At the end of 2015, its vacancy rate in the province was 2.5% compared to 6.6% for non-Boardwalk properties. And even though Alberta just experienced one of its worst economic years in recent memory, occupancy in Boardwalk's units in the province is still approximately the same as it is nationally.

Great balance sheet

When other apartment REITs were taking advantage of low rates to grow their empires, Boardwalk took a different approach. Management didn't see any compelling opportunities out there, so the company used its excess cash to spiff up units and pay down debt.

A few years later, that's looking like a smart move. At the end of 2015, Boardwalk had \$2.27 billion in total debt (offset partially by \$237 million in cash) and property worth more than \$5.5 billion. That works out to the debt-to-assets ratio of just under 37%, which might be the lowest in the whole Canadian REIT sector.

The strength of the balance sheet is good news for a few reasons. We know the company isn't going to go bankrupt, even if Alberta's economy takes another turn for the worst. The cash on hand is enough to pay the regular dividend for the next five years, so we know the 4.3% yield is safe, too.

And perhaps most importantly, the company has capital needed to fund its expansion program. Boardwalk plans to acquire 800-1,200 units over the short to medium term with the potential to build approximately 2,000 more on existing land.

Dividend increases

Most REITs pay out much of their income to unitholders. Boardwalk is much more conservative.

The company estimates it'll generate between \$3.40 and \$3.60 per share in funds from operations for 2016, while paying out \$2.25 in regular dividends. At the midpoint of that guidance range, we get a payout ratio of 64%. This conservative payout ratio just about guarantees Boardwalk will be a dividend-growth force for years to come.

Dividend growth has been solid over the last five years. In 2011 the company paid out \$0.15 per share each month. These days, the monthly dividend is \$0.1925. That's an annual growth rate of just over 5%, which handily beats inflation.

Shares of Boardwalk are down more than 30% over the last 18 months. That's good news for investors looking to load up on this proven winner for long-term growth.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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