Dream Office Real Estate Investment Trst Is 36% Underpriced

Description

There are few assets that are more tangible than real estate. The land and the buildings on top of that land have value. But it's still possible to lose a lot of money on real estate. If the market conditions are not right, it can be incredibly difficult to stay positive.

Dream Office Real Estate Investment Trst (TSX:D.UN) is one company that many investors have been concerned about, and for good reason. In February the company was forced to cut its dividend by approximately 33% from $0.1867 per share to $0.125. Ultimately, the company was paying out $2.24 in dividends, while its 2015 funds from operations were $2.83.

What had the company worried was the fact that its expected funds from operations in 2016 would be somewhere between $2.20 and $2.30. It had no choice but to cut the dividend before things got even worse.

However, now that the dividend has been cut, the company is actually in a really great position. And, more specifically, the stock is 36% undervalued based entirely on the value of its real estate, which should have many investors intrigued.

But because Dream Office owns quite a few buildings in Calgary, investors have been concerned about its ability to generate sufficient rent from its tenants. Because of this, the stock trades at only $20.85, even though its assets are worth $32.78.

How will investors see a return on investment if the markets refuse to value the company at its net asset value?

The company can take matters into its own hands, which it has said it will do. Specifically, if the assets are worth $32.78, but investors are only valuing it at $20.85, the company will begin selling the assets at regular prices. According to management, it intends to sell $1.2 billion of non-core assets over the next three years. It will then take that money and do two things with it. First, it will pay down debt. While its 48% debt-to-asset ratio is not awful, the lower it is, the stronger the balance sheet will be.

Second, the company can start to buy back more shares. If the market won't value the company appropriately, management will buy back the cheap shares, which is a positive for investors. With fewer shares outstanding, investors will see the value of their holdings increase. This will also reduce the number of shares the company pays dividends on, further strengthening the balance sheet.

All told, I believe that Dream Office is underpriced because of illogical fears. Dream Office is in a prime position to shine going forward. And with a 36% discount, investors should take the Foolish approach and start buying this company.

And, the best news of all, while the stock is underpriced, investors can continue to collect dividends that, if dripped back into the stock, will make this an even stronger holding over the next few years.

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
2025/08/18
Date Created
2016/04/18
Author
jaycodon