



## Attention Income Investors: Cominar Real Estate Investment Trust Yields 8.5%

### Description

In today's world of GICs, so-called high interest savings accounts, and government bonds all paying less than 2% annually, retirees and other income-oriented investors need better alternatives.

Many have crowded into other sectors. This has pushed yields from things like stocks, private mortgages, and real estate down. A decade ago, double-digit yields in each were common. These days, anything higher than 5% is considered risky.

Fortunately for income-starved investors, there are still a few choices out there that can provide some serious yield. These choices don't come with the guarantee associated with an investment backed by the government, but they do have years of consistent dividends behind them.

The investment opportunity I'd like to highlight today is **Cominar Real Estate Investment Trust** (TSX:CUF.UN), a REIT with an 8.5% yield.

### About Cominar

Thanks to a number of acquisitions over the years, Cominar has grown into Quebec's largest landlord. Of the company's 566 total office, retail, and industrial properties—which cover a combined 45.3 million square feet in gross leasable area—approximately 79% are located in either the Montreal or Quebec City metro areas. Some 5.7 million square feet is located in Ontario, with 2.7 million square feet in Atlantic Canada, and 1.1 million square feet in western Canada.

Cominar has a diverse group of tenants. Its largest tenant is Public Works Canada, which pays it 4.7% of its net operating income. That's followed by **Canadian National Railway**, the Société québécoise des infrastructures, **Jean Coutu**, and **Bank of Nova Scotia**. These four tenants contribute 3.4%, 3.2%, 1.4%, and 1.0%, respectively, to Cominar's bottom line.

In short, there aren't any big issues with any of Cominar's major tenants.

The company has an occupancy ratio of 92.5%, which is a little low. Many of its peers are in the 93-95% range, with some even higher. There are a couple of reasons for this weakness. **Target Canada**,

which was a major tenant, unexpectedly pulled out of Canada about a year ago. This move combined with a little bit of weakness in Quebec's economy has resulted in the company having more empty space than expected. Occupancy was 91.9% at the end of 2015, so progress is being made.

## **The financials**

Another thing investors don't love about Cominar is the company's debt load.

Typically, in the world of REITs, a company's debt-to-assets ratio is approximately 50%. At the end of March, Cominar had assets of \$8.22 billion with a total debt load of \$4.49 billion. That's a debt-to-assets ratio of 54.6%, which was a tad higher than the previous quarter.

The good news is Cominar's management has made paying down debt a priority over the next few quarters. Management has already sold off \$210 million in non-core assets. And some \$40 million has been reallocated to repurchasing shares the company thinks are undervalued.

Cominar shares have a book value of \$21.54 per share, a big premium to today's price of \$17.31. Shares have been persistently under book value for a few years now, but they did trade at a premium to book during parts of 2011-2013.

The big concern for income investors is Cominar's 8.5% dividend. In 2015, the company paid out more than 95% of its adjusted funds from operations to shareholders, a payout ratio that's alarmingly high. The payout ratio actually crept above 100% in the company's most recent quarter, but that should decline as occupancy increases and rents flow to the bottom line.

Even if Cominar's underlying operations don't improve and the company is forced to cut its dividend, investors will still be buying a stock trading at a 20% discount to book value that trades at approximately 12 times adjusted funds from operations. Sure, the dividend is riskier than a GIC or government bond, but even if it gets cut by 25%, investors are still getting a terrific yield.

## **CATEGORY**

1. Dividend Stocks
2. Investing

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