Attention Value Investors: These 3 REITs Are Ridiculously Cheap

Description

In theory, value investing isn't hard. You find cheap stocks, pick them up, and then patiently hold until they return to fair value.

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If only real life were that easy. The world of value investing is complex, with a million variables potentially affecting a stock. And then investors have to deal with psychological issues, like whether or not to sell after a previously cheap stock becomes even cheaper. This is easier said than done.

Take the REIT sector for instance. Many of Canada's top office REITs are incredibly cheap on both a price-to-book value and price-to-earnings metric. They own portfolios that are stuffed with good buildings with great locations; they just have exposure to a place that's suffering through some difficult times right now.

On the one hand, there are certain people who are saying Alberta will never return to its previous glory as electric cars cripple the energy industry for good. Other pundits are convinced this is just a temporary thing and that energy will eventually return to the point where producers can make a decent profit.

If you believe this is only a temporary situation, then REITs with a big exposure to the energy sector are a screaming buy right now. Here are three of my favourites.

Dream Office

Dream Office Real Estate Investment Trst (TSX:D.UN) is Canada's largest pure-play office REIT, owning 22.3 million square feet of gross leasable area spanning 160 different office towers. It has 85% of its portfolio's income coming from properties located in central business districts, and the company has an occupancy ratio of 91.4%. That's not bad, especially considering some four million square feet of the company's portfolio is located in Calgary.

Here's where Dream gets very interesting. At a current share price of $18.82, the stock is trading at a discount of 41% compared to the company's net asset value, which is approximately $32 per share. In fact, management estimates the Toronto portion of the portfolio alone is worth $19 per share. This means investors are getting 12.5 million square feet in places like Calgary, Edmonton, Vancouver, Regina, and Saskatoon for free.

It’s easy to be bearish on western Canadian real estate, but these assets are clearly worth more than zero.

Dream recently cut its monthly distribution from $0.186 per share to $0.125. This new payout is projected to be just 67% of the company’s 2016 adjusted funds from operations, giving investors an 8% yield they can truly count on.

Artis

The same affliction is hurting **Artis Real Estate Investment Trust** (TSX:AX.UN). Approximately one-third of its net operating income comes from Alberta. At least its more diverse than Dream with only 50% of assets consisting of office space. Retail and industrial buildings are at about 25% each.

Although Artis shares trade at a similar discount to Dream’s, the company’s underlying numbers are much better. Occupancy stands at 95%, down only marginally over the last year. Adjusted funds from operations are projected to come in at $1.30 per share in 2016, putting shares at just 10 times earnings.

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Artis pays an 8.1% dividend, which is a nice reward for a value investor waiting for the price to return to book value. A payout ratio of 83% isn’t quite as attractive as Dream’s, but it’s still safe enough to not have to worry about the payout.

Morguard

There are several Morguard REITs out there. The cheapest by far is **Morguard Real Estate Inv.** (TSX:MRT.UN), which owns 50 commercial properties spanning 8.8 million square feet of gross leasable area. Of its locations, 29 are office and industrial properties, and 21 are retail.

One of the things really affecting Morguard REIT is its top tenant, **Penn West**. Approximately 12% of net operating income comes from the troubled energy producer, a company many people think is close to bankruptcy. A Penn West bankruptcy would hurt, but remember: companies going through a reorganization process need office space, too.

Morguard pays a dividend of 6.3%, which comes with a payout ratio of just 77% of adjusted funds from operations. Occupancy is actually up year over year, hitting 97% compared to 96% in the same quarter in 2015. It has a low debt-to-assets ratio of 45% and a net asset value of $25.62 per share. This puts shares at a 41% discount to the company’s true worth.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

3. TSX:MRT.UN (Morguard Real Estate Investment Trust)

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