3 Reasons to Buy Dream Office Real Estate Investment Trst Today

Description

On first glance, **Dream Office Real Estate Investment Trst** (TSX:D.UN) isn't the kind of stock most sane investors would own.

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Shares are down nearly 40% over the last five years and down more than 50% from its 2012 peak. Issues have been mostly surrounding the company's Albertan portfolio, specifically Calgary. Alberta's largest metro has been suffering from a decline in oil prices along with additional office towers being built downtown. Landlords are already dealing with vacancies. New supply coming on the market won't help.

The company's dividend of 18.6 cents per share monthly was on precarious ground. So management did the prudent thing and cut the payout some 33% to 12.5 cents each month. That cut the payout ratio from 100% to closer to 70% of funds from operations.

Even though these seem like two very major negatives, I think investors should be paying more attention to Dream. Here are three reasons why I think it's a great buy today.

Asset discount

Because things are looking bad in Alberta, the market has punished Dream shares. It's what the market does.

But, as is often the case, investors have gone overboard in punishing the company. According to a recent investor presentation, Dream's management believes the net asset value of shares is currently in excess of $30 per share. That means shares are trading at a 40% discount compared to the value of the assets.

Or, to put it another way, 26% of the company's earnings come from Alberta. Even if assets in the province were worth nothing, the net asset value of shares would be higher than today's price. And nobody is suggesting prime real estate in Calgary's downtown core is worth zero.

A plan in place

Often, when a company knows there's a discount between its asset value and share price, management does nothing, content to let the market eventually correct itself. Dream's management team has ambitious plans to bridge that gap.

Management has identified some $2.6 billion in what they call private market assets that they plan to sell. This is real estate that hasn't been affected by oil's downturn that can provide liquidity at a fair price. These buildings are located in places like Toronto's suburbs, Ottawa, and Vancouver.

Part of the proceeds from these transactions will be put towards paying down debt as the company looks to deleverage itself. Other uses will likely be buying other assets in better markets and buying back shares that are viewed as highly undervalued.

A sustainable dividend

Most investors view dividend cuts as a bad thing. Why invest in a company that has failed in its promise to deliver a sustainable payout to investors?

I look at it a little differently. Yes, I like getting paid, just like most other people. But I'd rather see a company cut its dividend proactively to free up capital it can put to better use.

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Now that Dream has done that, the company's dividend is sustainable for the first time in years. Management expects a payout ratio of just 67% for 2016, freeing up cash that can be put to use paying down debt. That payout ratio is the lowest among the company's office REIT peers.

And it's not like Dream's yield is poor now, either. Shares currently yield 8.1%, which is a fantastic payout in a world where GICs and other fixed-income options rarely crack the 2% mark.

A good opportunity

As the old expression goes, you'll pay a premium price for a rosy consensus.

Yes, Dream Office REIT has its share of problems. But investors are getting a stock trading at a big discount to its true value that pays a sustainable dividend of more than 8% with a plan in place to bring the share price back up again. That's more than what most companies can offer today.

CATEGORY

1. Dividend Stocks
2. Investing

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