



## Is RioCan Real Estate Investment Trust a Smart Income Play?

### Description

**RioCan Real Estate Investment Trust** ([TSX:REI.UN](https://www.scribd.com/document/411111111/TSX:REI.UN)) is the preeminent retail REIT on the market, making it one of the more expensive income stocks. However, I believe investors would be making a mistake if they didn't at least consider purchasing shares because it has never been in such a great position as it is today.

When I say retail, people might think small, strip mall operations. However, this couldn't be further from the truth. RioCan owns massive shopping centres with retail juggernauts like **Wal-Mart**, **Canadian Tire**, and **Cineplex**. With anchors like this, RioCan has been able to build a large portfolio across all of Canada.

At the end of July RioCan released its second-quarter financial statement, and it carried a lot of really great news. The biggest was that it had completed the sale of its U.S. operations. During the economic crisis, RioCan bought a series of properties south of the border. It finally sold the entire 49-property portfolio for net proceeds of \$1.2 billion.

My prediction when that purchase went through was that RioCan would reduce its debt. It didn't disappoint. RioCan reduced its total debt-to-total-assets ratio from 46.3% in December 2015 to 38% at the end of June. This is a historic low and gives the company access to \$5.4 billion should it need to make big purchases.

The company did see a \$1 million drop in operating funds from operations (FFO) year over year due to the sale of its U.S. properties, which might seem bad. But if we were to compare the properties that still exist in the portfolio to last year's FFO, it actually increased by 8.1% to \$118 million year over year. In other words, the portfolio that didn't get sold is more than carrying the weight.

A big reason it has been able to increase its FFO so significantly is because of its 95.1% occupancy rate. A year prior it was 93.1%, so a 2% improvement over a year is quite significant. RioCan owns the property, so anything less than 100% is a missed opportunity. Unfortunately, it's improbable that the company will ever have the complete 100%, so the closer, the better.

If this was all that was being done, I'd be quite excited for RioCan's future, and I would recommend

buying. However, there's even more good news.

RioCan recently acquired the 50% stake that the Canadian Pension Plan Investment Board held in four properties for \$352 million. The company is also investing in an initiative to build residential units on top of its retail units. It's cheaper to build on top of a building than it is to buy new land and build from there. In its financial release the company said, "RioCan's objective is to obtain the appropriate zoning and approval for approximately 10,000 residential units over the course of the next 10 years."

This sort of growth is key to the company increasing the dividend in the future.

Speaking of the dividend, RioCan currently pays 11.75 cents per share, per month to investors, which yields just shy of 5%. However, due to the continued growth in cash flow, it was able to reduce its AFFO payout ratio from 94.5% to 89.9%. This makes the dividend more secure and, should growth continue, might give the company incentive to boost the yield.

All of this ultimately leads me to believe that RioCan is a great buy.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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