



Income Investors: This Blue-Chip REIT Has Paid 117 Consecutive Dividends

Description

Dividend investors look at a lot of different factors when making an investing decision, analyzing things like the quality of a company's business, the payout ratio, and dozens of different financial ratios to get a full picture of a company's operations.

Other investors don't bother with any of that stuff, choosing to look instead at one metric they feel trumps all others. As long as a company has a demonstrated history of paying a dividend without any interruptions, it's immediately considered a possible investment.

This strategy isn't as foolish (note the small "f") as it might seem at first glance. A dividend can tell you a great deal about a company. It demonstrates that it has a history of steady profitability and also shows that management puts shareholders first.

With that in mind, let's take a look at a REIT that has paid investors 117 consecutive dividends since its 2006 IPO: **Artis Real Estate Investment Trust** ([TSX:AX.UN](https://www.artisreal.com/)).

The skinny

Artis is a diversified REIT operating mainly in western Canada. It owns property in B.C., Alberta, Saskatchewan, Manitoba, Ontario, and in three U.S. states. Office space makes up about half of the portfolio with industrial space at 24% and retail at 22%. Overall, the company owns 263 different properties and 27.1 million square feet of space.

One thing that has been helping results lately is this U.S. exposure. As the Canadian dollar has weakened against its U.S. counterpart, earnings from the U.S. portfolio have increased dramatically when converted back to local currency. Additionally, the U.S. portfolio is located in areas without much commodity exposure, which is leading to solid occupancy rates and good growth in rents.

So why have Artis shares somewhat underperformed lately? There are a couple of reasons. The first is fear of interest rates heading higher, which is affecting the whole REIT sector. The other, more Artis-specific issue is the company's exposure to Alberta. A third of the company's net operating income comes from the province, which is still reeling from oil's massive decline.

But Artis is weathering the storm nicely. Occupancy has trended slightly down for a little while now, but it seems to be stabilizing at about 94%. And the company did a nice job renting to certain tenants in Alberta without direct energy exposure.

Dividend health

On first glance, it might look like Artis is poised to cut its dividend. After all, the market has assigned it a yield of 8.7%, which is awfully high, especially in a world where a 2% GIC is considered "high yield."

But Artis can easily afford its payout. According to company projections, it should earn \$1.28 per share in adjusted funds from operations in 2016, which is about the same as it posted in 2015. With a projected dividend of \$1.08 per share, Artis has a payout ratio of 84.4%. Management projects the payout ratio will further decrease in 2017, coming in at closer to 80% of adjusted funds from operations.

Investors are pricing Artis shares as if a dividend cut is imminent. Nothing could be further from the truth.

Cheap shares

From both an earnings and asset value perspective, REITs are one of the cheapest sectors in the market today. And Artis is one of the cheapest REITs.

Artis shares currently trade hands for about \$12.40 each, while the company is projected to earn \$1.28 in adjusted funds from operations, which is a REIT's equivalent of earnings. Thus, the company trades at less than 10 times forward earnings.

And from a net-asset-value perspective, shares are also cheap. The company has a net asset value of \$14.81, which puts shares at a 17% discount to net asset value.

The bottom line

Artis offers investors a very attractive payout of 8.7%. It also shows a demonstrated dividend history, not missing a payout since its 2006 IPO. Combine that with its cheap valuation and its ability to grow, and it's pretty easy to be bullish on Artis—despite the company's Alberta exposure.

CATEGORY

1. Dividend Stocks
2. Investing

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