



3 Reasons to Buy Artis Real Estate Investment Trust Today

Description

Artis Real Estate Investment Trust ([TSX:AX.UN](#)) has grown substantially since its 2006 IPO, amassing close to \$6 billion in assets that are spread across 263 office, retail, and industrial buildings, both in Canada and the United States.

It has 54% of its operating income coming from office assets. Industrial and retail pretty much evenly split the remainder, generating 24% and 22% of operating income, respectively. The largest geographical region is the United States, which contributes 34% to the bottom line. Alberta is slightly behind, contributing 33%.

This Albertan exposure is a big problem for Artis. Although occupancy in the region is holding up pretty well, investors are worried about the economic climate in the province. It doesn't help that two of its largest tenants are struggling energy companies.

This exposure plus general fear of interest rates heading higher has pushed Artis shares down to just over \$12 each—a seven-month low. Here are three reasons why investors should be loading up today, while shares are cheap.

A sustainable 9% yield

It isn't very often investors can lock in a truly sustainable 9% yield. That's exactly what Artis is offering today.

Artis is on pace to generate \$1.51 per share in funds from operations in 2016 and \$1.28 per share in adjusted funds from operations. The big difference in the two forms of REIT earnings is the latter includes capital expenditures.

Even using the more conservative earnings number, Artis is in no danger of missing a dividend payment. The annual dividend is \$1.08 per share, giving the company a payout ratio of 84%.

There are many other Canadian REITs with higher payout ratios; a few are even at close to 100%. These REITs yield about the same as Artis but come with much more dividend uncertainty.

Great valuation

Artis shares are cheap on a number of characteristics, including price-to-earnings and price-to-book value.

Let's start with earnings. Artis currently trades at just 7.9 times 2016's expected funds from operations and 9.4 times 2016's expected adjusted funds from operations. That's far lower than the average of its peers. In fact, there's only one major REIT that trades at a lower earnings multiple.

Artis is even cheap on an assets basis. The company has a net asset value of \$14.81 per share, putting shares a full 23% below net asset value. Buying a dollar for 77 cents is pretty appealing, especially after factoring in the cheap earnings yield as well.

Or, to put it another way, investors who put their capital up today are earning \$1.51 per share in earnings in exchange for \$12.01 per share in capital—a 12.5% return. That's the equivalent of buying property for \$100,000 and getting a net return of \$12,500 after operating expenses.

Experienced real estate investors know it's virtually impossible to find such returns when buying physical properties in Canada today.

A potential catalyst?

It's obvious investors are punishing Artis for its Albertan exposure. The company can deal with this in one of two ways. It can either be patient and wait out the market, content in knowing Alberta will eventually recover. Or it can sell these assets to somebody.

It appears management is choosing the latter route, at least according to rumours. Most of the company's Albertan assets are reportedly up for sale with several buyers interested.

The tricky part will be whether Artis can get a decent price for these buildings or if potential buyers insist on a huge margin of safety. Some buyers are certainly willing to take the long-term view and offer prices competitive with the rest of the country. But it isn't just Artis rethinking its Albertan exposure. So are many other REITs. A glut of property hitting the market could drive prices down.

In other words, this is hardly a done deal. Still, it's nice to see management thinking about how to maximize shareholder value.

The bottom line

Artis offers investors a 9% yield, a very compelling valuation, and a potential catalyst that could send shares higher. Even if the catalyst never happens, the valuation alone is compelling enough to make both value and dividend investors look twice at Artis.

CATEGORY

1. Dividend Stocks

2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)

Category

- 1. Dividend Stocks
- 2. Investing

Date

2025/07/07

Date Created

2016/10/14

Author

nelsonpsmith

default watermark

default watermark