



## 6 Reasons to Own This Hidden Gem Over its Big Peers

### Description

If retail REITs come up in a conversation, **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) and **Smart REIT** ([TSX:SRU.UN](#)) will likely be mentioned first.

Why? Because they're the big guys in the industry.

RioCan and Smart REIT have market caps of about \$8.7 billion and \$4.6 billion, respectively. It's no wonder that most investors have not heard of **Plaza Retail REIT** ([TSX:PLZ.UN](#)); it only has a market cap of about \$507 million.

Here's why you should consider owning Plaza Retail REIT instead of its bigger peers.

### Stable portfolio with little exposure to Alberta

Plaza Retail REIT has 297 properties comprising 7.6 million square feet across eight provinces. It has competitive advantages as a developer in the Atlantic provinces where 58% of its portfolio resides.

The REIT also primarily operates in Quebec (28% of its portfolio) and Ontario (13%). It has less than 1% exposure to Alberta, so it has been essentially unscathed from the oil-price decline in the past couple of years. This resulted in total returns of almost 42%, or an annualized rate of return of 19.4%, since the end of October 2014.

### Stable, high occupancy

A stable portfolio should have stable, high occupancies. Indeed, Plaza Retail REIT has maintained a high occupancy of 95-98% since 2006.

The retail REIT's top 10 tenants also contribute greatly to its stability. They represent about 58.5% of monthly base rents in place.

Its top tenant is Shoppers Drug Mart, which is considered very safe and stable and represents roughly 25% of monthly base rents. Next, KFC represents about 10%. Third, **Dollarama** represents 4.7%.

### **Strongest-growing income among peers**

Plazacorp Retail Properties Ltd. was converted from a company to a REIT in 2014. Regardless of its structure, it has had the strongest dividend/distribution growth versus its peers.

Plaza Retail REIT outperforms in distribution growth

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*Source: 2016 AGM Presentation — Slide 23*

The graph above illustrates that it's not a norm to grow distributions in the retail REIT industry. However, growing the distribution is obviously ingrained in Plaza Retail REIT's culture.

Its distribution has nearly tripled since 2004, growing from \$0.09 per share to \$0.26 per unit. The company has consistently increased its distribution for 13 consecutive years, and it's the only publicly traded Canadian retail REIT to have achieved that.

### **One of the safest payout ratios**

Plaza Retail REIT maintains one of the most conservative payout ratios among its peers. Its recent adjusted funds from operations (FFO) payout ratio was 83.3%.

### **Growth**

One advantage of Plaza Retail REIT is actually its small size. First, it's easier for a smaller company to double its revenue than it is for a bigger company to do the same. Second, it can be more agile in adapting to changing market environments.

The REIT also focuses on accretive development and redevelopment. As a matter of fact, it is fully internalized and has the ability to develop retail properties in house. So, it can earn higher cap rates without having to buy finished properties from third-party developers.

All the above reasons allow Plaza Retail REIT to grow faster than its bigger peers. And, of course, any growth makes its distribution safer and gives more room for distribution growth.

The company has 24 projects under development or redevelopment, which will add about 1.76 million

net square feet to its portfolio.

### **Strong alignment of interest**

The REIT has an internalized management and strong insider ownership of about 21%. This ensures strong alignment of interest with that of unitholders.

### **Conclusion**

By buying Plaza Retail REIT on dips, especially at a yield of 5.6% or higher, investors can likely outperform an investment in a bigger peer. And you'll also get a growing income over time.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:PLZ.UN (Plaza Retail REIT)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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