



## Is Cominar Real Estate Investment Trust's +10% Yield Too Good to Be True?

### Description

Some real estate investment trusts (REITs) are known to offer enticing yields. However, not all high yields are created the same.

Is **Cominar Real Estate Investment Trust's** (TSX:CUF.UN) 10.6% yield too good to be true?

Let's first take a look at its business.

### The business

Cominar REIT is one of the biggest Canadian diversified REITs with total assets of about \$8.3 billion across 539 properties and 44.8 million square feet.

In the third quarter, Cominar REIT earned about 42% of its net operating income (NOI) from its retail assets, 38% from its office assets, and 19% from its industrial and mixed-use assets.

In the same period, it generated 76.4% of its NOI from Quebec (51.6% from Montreal and 24.8% from Quebec City), 14% from Ontario, 5.5% in the Atlantic provinces, and 4.2% from western Canada.

Cominar REIT's portfolio occupancy was 92.2% with its industrial assets taking the lead in having the highest occupancy of 93.9%, followed by its retail assets with an occupancy of 92.6%.

169 real estate reit

### Is its distribution safe?

Cominar REIT's overall occupancy has declined from the previous two quarters, but it's higher than it was at the end of 2015. Are the cash flows generated by its properties enough to cover its distribution?

That's where the adjusted funds from operations (AFFO) payout ratio comes in. It is a stricter metric than the FFO payout ratio in determining the safety of the distribution. The REIT's AFFO payout ratio

for the first nine months of the year was 104%.

A big reason Cominar REIT's distribution is staying afloat is because of its distribution-reinvestment plan, which was resumed in October (its September distribution). Its recent participation rate for the reinvestment plan was 19.3%.

Every time a unitholder reinvests their distributions, more units are issued, which dilutes current unitholders and makes future distributions less safe.

This is evident in its declining FFO per unit. Cominar REIT's FFO per unit declined 4% in 2015 and is expected to decline another 9% this year.

That said, at the end of September, the company had \$419.1 million of liquidity available to draw from its credit facility. So, if it needed the capital to, say, pay a part of its distribution, it could access its credit facility.

### **Main goals**

Management's near-term goals are to deleverage the balance sheet and to improve its occupancy. The company worked towards deleveraging by offering \$200 million worth of units and reinstating the distribution-reinvestment plan in September. The management had good timing for the equity offering, as it was offered at a price of \$15.65 per unit, whereas the units trade 11.5% lower today.

The act of deleveraging is good for the health of the company. Unfortunately, it has diluted existing unitholders.

### **Conclusion**

Cominar REIT offers a high yield of 10.6%. For the time being, it's maintaining its distribution. However, its AFFO payout ratio is overextended, and its distribution-reinvestment plan continues to increase the number of its outstanding units. So, there's little to no room for error on management's execution to improve its occupancy.

Investors should be wary about Cominar's 10.6% yield. To be on the safe side, be a spectator until its occupancy improves and its AFFO covers its distribution.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **Category**

1. Dividend Stocks
2. Investing

### **Date**

2025/08/18

### **Date Created**

2016/11/21

### **Author**

kayng

default watermark

default watermark