



These Shares With a +9% Yield Slumped: Is it Time to Buy?

Description

Here's the story.

In the summer of 2015, **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) sold its commercial real estate properties to **Slate Office REIT** (TSX:SOT.UN) for \$430 million.

Simultaneously, Fortis invested \$35 million at \$7.40 per unit in the REIT, which equated to 15.5% of the REIT's outstanding trust units at the time.

A little over a year since the purchase, Fortis decided to sell all of those units at \$7.78 per unit. That's why Slate Office shares fell 3% on Friday. The sale is expected to close on Tuesday.

What does this mean for the two companies?

For Fortis, the sale of the REIT units will support its general financing requirements and allow the regulated utility to focus more on its core business. In about a year and four months, the utility earned a return of a little over 18% (excluding any related fees).

There's nothing fundamentally wrong with Slate Office. The units slumped 3% due to the news of the Fortis sale. At least until Tuesday, Slate Office's units will likely remain pressured and trade at roughly \$7.78 per unit.

office building
office building type unknown

Slate Office's business

Slate Office invests in the secondary Canadian office market, which makes up two-thirds of the Canadian office inventory. It focuses on non-trophy, downtown and suburban office properties, which are typically available at a discount to replacement cost.

Moreover, suburban rents have proven to be more stable than rents in core business districts over a 10-year period. The REIT has been unaffected by the energy price volatility because it has no

exposure to Alberta.

Slate Office's top 10 tenants include the government of Canada, three provincial governments, **Manitoba Telecom Services**, **SNC-Lavalin**, and **Extendicare**. Investment-grade tenants contribute 45% of the company's income.

An improving company

Since 2014 Slate Office has been diversifying its portfolio, and it now has 35 assets across five million square feet. Simultaneously, the REIT has reduced its payout ratio from over 100% to 87%, making its monthly distribution safer than before.

The REIT obtained the Fortis portfolio located in Atlantic Canada last year. Today, the company generates about 49% of its net operating income (NOI) from the region, 37% of its NOI from Ontario (including the Greater Toronto Area), and 14% from western Canada.

Conclusion

Slate Office's units slumped 3% on Friday due to the news of Fortis selling its units. There wasn't anything wrong with the fundamentals of the company.

Investors should note that the company's management owns about 15% of the REIT. Strong insider ownership is usually seen as a plus as it aligns management's interest with that of the unitholders.

At \$7.78 per unit, Slate Office yields 9.6% and trades at 4% below its book value per unit. So, the REIT is considered fairly valued.

High-yield companies such as Slate Office typically grow slowly. So, interested investors should wait for a larger margin of safety before buying. If you own the REIT already, it might make sense to hold on for a high income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)
3. TSX:RPR.UN (Ravelin Properties REIT)

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