



Is Dream Industrial Real Estate Invest Trst a Good Buy?

Description

Recently, shares of **Dream Industrial Real Estate Invest Trst** ([TSX:DIR.UN](#)) hit \$8.50, sending the stock closer to the 2016 resistance level of approximately \$9. With a current dividend yielding more than 8.25%, I decided to look further into this security to see what the real story was.

The company is responsible for holding and managing industrial properties across the country. In case you're wondering, this company is in fact part of the Dream family.

In 2012, the industrial properties which now total 217 were spun into Dream Industrial Real Estate Invest Trst; the office properties remained in **Dream Office Real Estate Investment Trst**. The assets outside Canada were spun off into the **Dream Global REIT** in 2011. What could have been compared to an all-dressed pizza began to take shape and was divided into smaller slivers, all of which have become much more focused on one area of the market.

In the case of Dream Industrial Real Estate Invest Trst, shares have traded down since 2012, and the distribution has been almost unchanged since the IPO. What makes this an interesting security to consider is the dividend yield, tangible book value, and area of the real estate sector.

The dividend yield

Although the dividend has not had the increase we prefer when deploying our capital, the reality is, the dividend yield is currently just above 8.25% with a payout ratio of approximately 86% of AFFO (adjusted funds from operations).

AFFO represents the amount of cash available for distribution to shareholders. The sustainability of this payout will depend on the continued positive cash flows of the company in addition to the number of shares outstanding.

Although the positive cash flow is not an issue, the total number of shares which need to be paid a dividend is increasing every quarter. This worries me. The total shares outstanding have increased from 71.2 million at the end of 2013 to 77.83 million in the most current quarter.

With more mouths to feed, there is a danger the company will be forced to cease the reinvestment of dividend, as Dream Office Real Estate Investment Trst did earlier in 2016.

The tangible book value

As with most REITs, there is considerable tangible book value in the company. Given the tangible book value of \$7.81 per share, shares are trading at an 8% premium. With the issuance of new shares on a quarterly basis, investors seem to be in a losing position. It may be a good idea to wait for a lower price point before entering a position.

The segment

The industrial segment of the real estate market is one which I view as very attractive. With many long-term, low-maintenance tenants, the total number of support staff needed to manage this kind of operation is not a very high number. Overhead should be a rounding error for this kind of operation.

Conclusion

Dream Industrial Real Estate Invest Trst may be a very interesting dividend play, but not much more than that at this point. With a market capitalization of \$500 million, the company is still relatively small and trades at a premium to book value. This is another name to add to the 2017 watch list.

CATEGORY

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1. TSX:DIR.UN (Dream Industrial REIT)

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