A Decent Dividend Decision: Choice Properties Real Estate Investment Trust

Description

Any time an investor can get a 5% dividend on a stock with modest principal upside potential, it is worth taking a deeper look. I'll be looking at **Choice Properties Real Estate Investment Trust** (TSX:CHP.UN) as a bond substitute or income-producing vehicle for yield-conscious investors.

Who is Choice REIT?

Choice REIT is the real estate investment trust (REIT) created to hold and manage properties owned by **Loblaw Companies Limited** (TSX:L), featuring a number of banners including Shoppers Drug Mart. This REIT has the fundamentals to support a strong dividend yield in the future and is viewed largely as a high-yield security with characteristics similar to that of bonds, making this an interesting option for investors looking for yield in a time when finding decent yields can prove difficult.

This REIT is different in that it is anchored largely by Loblaw with approximately 90% of the properties vended into this REIT currently occupied by Loblaw's banner stores. Tying the fate of this REIT largely to one company means investors will need to consider the strength of the anchor tenant to determine how safe this stock's dividend is in the long term.

Separation of business and real estate portfolio a good thing

Looking at the company's fundamentals, Choice REIT appears to remain strong relative to its peers in the competitive REIT space.

Loblaw has done a good job of separating the real estate assets of the business from the underlying operations. In that regard, investors are generally able to split the operational risk of the underlying retail grocery business from Loblaw's real estate portfolio, providing a better picture of Loblaw's operational success and the value of its real estate holdings.

On a fundamental level, most analysts agree that separating the real estate portfolio of an operating business from its operations can provide more accurate insight into the performance of both sides of the business. While this REIT holds significant exposure to the success of Loblaw's operating business, we can see from the company's five-year performance that its stock has grown steadily and done a good job of integrating acquisitions into its portfolio.

That said, the price-to-earnings (P/E) ratio for Loblaw sits at 30 — a relatively high valuation for a retail business. Considering that the real estate portion of the business is removed from Loblaw's stock price, it can be asserted that the P/E ratio should be higher, as many other businesses in the grocery retail business with whom Loblaw can be compared to have not put their real estate holdings into a REIT.

Conclusion

As Loblaw continues to grow its property base and expand, Choice REIT will continue to "pick up the trail of crumbs" left behind from the Canadian retail behemoth. Loblaw remains considerably insulated in the Canadian grocery retail industry, and with additional consolidation expected, it can be argued that this REIT is one which can bask in the security of Loblaw's excellent performance, and it can expect similar performance in the future.

Stay Foolish, my friends.

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