Killam Apartment Real Estate Investment Trust Releases Solid 2016 Financials

Description

In a world of choice when it comes to Real Estate Investment Trusts (REITs), smaller REITs such as **Killam Apartment Real Estate Investment Trust** (TSX:KMP.UN) are often ignored or pushed aside in favour of larger "household" names in the REIT sector. A variety of choices in the mid-cap REIT space means finding a few gems among the giants is a possibility — and who doesn't like a treasure hunt?

Killam REIT: an overview

Killam REIT operates largely in the Atlantic and eastern Canadian provinces, focusing on small but very profitable apartment real estate markets in areas larger REITs tend to allocate a smaller percentage of their respective portfolios.

In 2016, the company made some fantastic acquisitions that have bolstered the REIT's fundamentals. Of note, Killam REIT completed $71.5 million in acquisitions in 2016 which have immediately contributed to net income and FFO for the year. It also completed the construction of the Saginaw development in Cambridge in November; it contributed to the company's bottom line for 2016, but will have a larger impact in 2017 and beyond.

The company's prudent investment and development strategy is one of the reasons long-term investors like myself are taking a second look at Killam REIT.

Company fundamentals

In my article on Killam REIT in mid-November, I noted a distinct value gap of at least 15%. Since the article was published, the stock price has appreciated approximately 7%, meaning a value gap continues to exist based on the company's fundamentals in November.

In fact, as per the company's most recent Q4 2016 and full-year 2016 financial results, investors saw a number of improvements on key metrics such as FFO and net income, both of which have appreciated substantially since 2015. The fact that the company's underlying financial performance continues to improve means the value gap appears to be widening, and the market may be undervaluing the assets of Killam REIT by a margin larger than the 15% gap I indicated existed in November.

The company notes that lower interest rates and additional revenue and profit arising from acquisitions carried out throughout the fiscal year helped to boost its top and bottom lines. While borrowing costs may begin to rise in the near term, the company has engaged in a strategic borrowing strategy using CMHC loans, refinancing higher-interest mortgages, and convertible debentures.

What is especially important for long-term investors is how a business is able to manage its bottom line and return value to shareholders. Killam has doubled its net income attributable to shareholders year over year from $34.6 million in 2015 to $68 million in 2016.

This strengthening of the company's bottom line has allowed Killam REIT to further reduce its debt burden, which has decreased from 56.4% of total assets at the end of 2015 to 53.5% of assets at the end of 2016. In a time when interest rates are likely to begin to rise from historical lows, REITs such as Killam that continue to manage debt levels and hold higher percentages of unencumbered assets will likely outperform peers in the medium to long term.

Stay Foolish, my friends.

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