



Dream Office Real Estate Investment Trst: Trades at a Discount and Pays a Great Yield

Description

Regular readers of mine know that I've been bullish on **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) for quite some time. Through August, September, October, and November, I recommended that investors pick up shares because at some point the market would begin to value this company a bit more fairly.

And that's beginning to happen. At the end of August, the stock was trading at a 31.25% discount to net asset value (NAV) and yielded over 9%. Fast forward to today, and the discount it's trading at compared to NAV is down to a little over 11% thanks to some nice appreciation over the past few months.

The NAV of a REIT is the combined valuation of all of its real estate divided by the number of shares it holds. Then you just compare that to what the stock trades at. The idea here is that management could sell the real estate and then carry cash on the balance sheet, which is much easier to value than the buildings. Dream has a plan to sell \$1.2 billion in real estate (with approximately 80% of that already sold).

So, should you still buy this stock? I say yes because the discount remains 11% off from where it should be trading, plus this is a monthly dividend stock, allowing you to reinvest that earned cash and compound much faster.

But there's an even more important reason why you should buy this stock.

That 11% discount is actually quite a bit more. Because of how poorly energy companies were doing in Alberta because of the oil rout, Dream devalued its holdings in the province. However, the company still holds those buildings, and energy companies have been getting stronger while the spot price of oil appreciates. Should these companies remain strong, I imagine the real estate market in Alberta will strengthen, improving the value of those written-down buildings. Or the company will continue selling it, as management has suggested.

In the 2016 annual report, P. Jane Gavan, CEO of Dream, wrote, “heading into 2017, our overall strategy remains consistent with what we announced last February, to become smaller with a core portfolio of assets that are far simpler to understand and manage.”

This would be a positive because the company could get rid of underperforming assets and focus on what’s doing well. If we look at its income breakdown, 61% of its net operating income comes from its core assets. And it has incredibly high-quality tenants, such as the Government of Canada and **Bank of Nova Scotia**, which, combined, account for 11% of its holdings; the next eight clients account for an additional 13%. These are all rated BBB+ or higher.

Dream Office has a long way to go before it will be back on even footing. The company is transitioning, selling underperforming assets, and focusing on its core business. And along the way, it is paying \$0.125 per share a month. I believe this income and the discount could make this stock a high performer for your portfolio over the coming years.

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