Dream Office Real Estate Investment Trst: An Income Stock Under Construction

Description

Dream Office Real Estate Investment Trst (TSX:D.UN) is one of my favourite companies primarily because it continues to trade at a discount to its total assets. And while the company remains an appealing pick for me, one theme which has popped up repeatedly in the most recent earnings call.

Michael Cooper, chairman of Dream Office, said, “We basically see Dream Office REIT as under construction and we’re hoping to be finished by the end of 2018.” CEO Jane Gavan echoed that when she later said, “In summary, Dream Office REIT will remain, as Michael said earlier, a company under construction over the next two years which is going to impact our operating results.”

This is important because it helps to frame what the company is currently looking to achieve and helps the average investor determine if they want to be part of this company.

Essentially, Dream Office had a roller coaster 2016. With oil prices down, its occupancy rate dropped in Alberta. This forced the company to cut the dividend, get rid of its DRIP program, and write down the value of many of its Albertan holdings. Obviously, investors were concerned with this, and shares tanked afterward.

Dream Office initiated a strategy to sell its non-core units. If investors wouldn’t value the physical assets, perhaps they would value actual cash. But, more importantly, it would make the company leaner, allowing it to focus on what was generating the maximum cash flow. And it has had significant success getting rid of assets thus far. So far, the company has sold $1.1 billion in assets and, as of February, it has $400 million either in contract or in various stages of negotiation.

The company has used those assets to buy back shares of Dream Office. During 2016, it spent $80.2 million acquiring 4.2 million shares at an average cost of $18.51 per share. By reducing the number of shares, it becomes a leaner and far stronger company.

Should you buy?

So, is this company worth buying or not? It currently trades just shy of $19. However, it’s net asset value (NAV) is $22.48. By purchasing shares of the company at $19, you’re essentially getting $3.48 of “free” company.

On top of that, you are also getting a very lucrative 7.91% yield, which I believe is in a stable position. Earning $0.12 per month gives you the ability to compound your growth by reinvesting in the company and acquiring more shares.

There are two ways you make money on this company. The first is obviously the dividend; the second is through the natural appreciation of shares as the company buys them back. This will leave you a larger share of a company that is focused entirely on its core assets which continue to do very well.

Recognizing that a stock is cheap is important. Although it’ll take time for Dream Office to leave the construction stage, I believe the consistent yield and slimming of the company will turn out to be a solid investment for you.

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