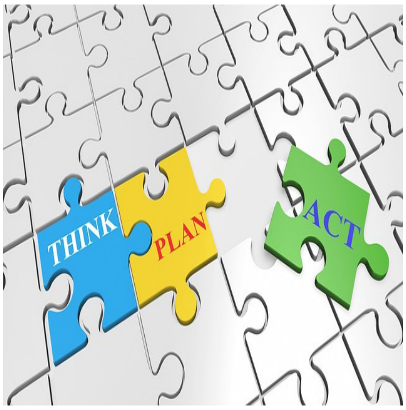

Is RioCan Real Estate Investment Trust a Reliable Income Play?

Description

Real estate investment trusts (REITs) is a good source of income as they typically pay juicy monthly distributions. **RioCan Real Estate Investment Trust** (TSX:REI.UN) currently offers a yield north of 5% after its units have pulled back about 13% since the summer of 2016.

Competition from e-commerce has had a negative impact on brick-and-mortar stores in general, but RioCan's operations remain strong.

RioCan's recent story

RioCan expanded into the U.S. in 2009, which wasn't a bad time to invest after the Financial Crisis hit. The company added value to its portfolio by increasing its occupancy and cash flow.

Last year, the REIT capitalized on its U.S. investments by selling the 49 properties for net proceeds of $1.2 billion at a time when the U.S. property valuations were higher than those in Canada, and the U.S. dollar has risen a lot against the Canadian dollar. Since then, the company has focused on its Canadian portfolio.

Portfolio and tenants

At the end of 2016, RioCan had a net leasable area of almost 41.3 million square feet and 3.76 million square feet under development.

RioCan's top 10 tenants contributed 31.5% of its annualized rental revenue with remaining lease terms of 5.9-11.5 years, or a weighted average remaining lease term of eight years.

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shopping mall

Including its top tenants, such as **Loblaw**, **Canadian Tire**, **Cineplex**, and **Lowe's**, RioCan had more than 6,200 tenants, of which none contribute more than 4.8% of its annualized rental revenue.

Ontario is one of Canada's most economically stable provinces, if not the most stable. Across 189 income-producing properties, Ontario contributes a large percentage, about 66%, of RioCan's annualized rental revenue. RioCan also has 11 properties under development there.

The REIT generates 8.5% and 8.2%, respectively, of its annualized rental revenue from Quebec and British Columbia.

RioCan's second-largest contributor is Alberta, which contributes about 14% of its annualized rental revenue across 30 properties. The REIT has four properties under development there. It's probably not a bad time to invest in Alberta as energy prices are low.

Distribution safety

At the end of 2016, RioCan's portfolio had a committed occupancy of 95.6% and an adjusted funds from operations payout ratio of 91.4%. So, the REIT's 5.4% remains sustainable. In the long run, management aims for a payout ratio to be below 90% to ensure the long-term sustainability of its distribution.

Investor takeaway

RioCan generates stable rental income from a diversified portfolio across more than 6,200 tenants. Its distribution is sustainable, especially if management reduces its payout ratio to below 90%, as it says it plans to do in the long run.

The pullback to below $26 per unit pushes its yield higher to 5.4% and brings the stock to a more reasonable multiple of about 15.4. If shares dip to $24-25, it will be a better value for a yield of 5.6-5.9%.

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Date
2025/08/13
Date Created
2017/05/01

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