



The Challenge With Dream Office Real Estate Investment Trst

Description

Investors looking for a sustainable dividend yield in excess of 7% that's trading at a discount to tangible book value need not look any further. At current levels, shares of **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) are trading at a price around the \$19 mark, offering new investors a yield of approximately 7.85%!

Clearly, there is value to be had, but let's not jump in without first looking deeper into what seems like a home run on the surface.

The first thing to look at is the tangible book value per share. As of the most recent quarterly report (March 31, 2017), the tangible book value per share is about \$22.30, which translates to a share price trading at a 15% discount. Investors are getting 15 cents for free for every 85 cents being deployed into this name. Of course, the share price is only a steal as long as the tangible book value remains intact.

With current interest rates at all-time lows, and Canadian consumers taking on more debt than ever, the probability of a rate increase is very high. The probability of a very significant increase in interest rates (or multiple small increases) is very small. Although rates will most probably slightly increase over the next few years, the chances of a very large increase remain relatively small as the increase in borrowing costs would cripple the budgets of many Canadians. Investors need not worry about significantly higher rates.

The second thing to evaluate is the probability that the company will slash the dividend. This already happened over one year ago. Capital has continued to be returned to shareholders over the past year. Since cutting the distribution, the company has experienced an increase in the value of the share price (from a low of \$15 to a current price of \$19), while reducing the total number of shares outstanding.

As of the end of September 2016, the total number of shares outstanding was slightly under 108 million shares, which has since decreased to slightly more than 103 million. The result is a market capitalization which has not changed by much as the shares outstanding have declined while the unit price has increased. The good news for investors (in addition to the increase in share price) is, the total

amount of money available for distribution has now increased on a per-unit basis. The dividend is now more sustainable.

More than a year after facing the music, the company has finally positioned itself to deliver to investors without having to wonder about the long-term sustainability of the cash flows. Clearly, things have improved.

While the company still owns a number of properties in Alberta, where the oil sands continue to act as a headwind, investors need to separate the bad news from the big picture and take a leap to enjoy a +7% dividend yield.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/17

Date Created

2017/06/21

Author

ryangoldsman

default watermark