RioCan Real Estate Investment Trust: Be Greedy When Others Are Fearful

Description

It's not often that you're presented an opportunity to pick up shares of a grade A real estate investment trust (REIT) at a serious discount, but when the opportunity presents itself, you have to pounce.

RioCan Real Estate Investment Trust (TSX:REI.UN) has seen its value cut by 9.25% year to date for a multitude of reasons, many of which are outside its control.

The first is concern is about **Amazon.com, Inc.** (NASDAQ:AMZN). RioCan is a retail REIT, so it generates its revenue from malls. It could be argued that Amazon is putting traditional retail locations out of business, so that presents concern for those that are invested in Canada's top retail REIT.

Another concern has to do with **Sears Canada Inc.** (TSX:SCC) shutting down. There are going to be a total of 59 closures across Canada with seven of those in RioCan properties. This has investors spooked because they saw what happened to RioCan when **Target** stopped operating in Canada.

Frankly, neither of these concerns should worry investors. According to RioCan, the seven Sears Canada locations represent 0.4% of RioCan's annual rental revenue. While no business likes to lose money, it's not that significant and really doesn't change anything for the business.

And with regard to Amazon, it's true that a lot of retail locations are going to be put out of business. However, I think it'll be strip malls and small retail locations that will go under. RioCan owns large malls that have dozens, if not hundreds, of tenants, providing diversification.

Its top tenants include brands that we all know: **Loblaw**, **Wal-Mart**, **Cineplex**, and **Canadian Tire**. The top 10 account for 31.5% of RioCan's rental revenue. With a weighted average lease term of eight years remaining and no single tenant accounting for more than 4.8% of the company's revenue, it's clear that the business shouldn't experience the same shock waves it did when Target left.

And, just as importantly, it would take a complete collapse of major retail for RioCan to suffer and become a risk to investors and their portfolios.

Nevertheless, the market is punishing RioCan, and that provides you with a prime opportunity to be greedy. With a yield of 5.84%, you're getting a strong yield cost.

Consider this: exactly one year ago, I wrote an article about RioCan when shares were traded at over $28 a share. The yield was only 4.94%. If you had invested $10,000 a year ago, you would have picked up 350 shares. After one year, you would have earned $493.50 in income.

If, however, you had waited until today to pick up shares, you would have picked up 413.90 shares. With that same initial $10,000 investment, you would now be earning $583.60, or $90 more. Because you waited, you have more shares that are earning you income.

I believed it a year ago, and I wholeheartedly believe it now: RioCan is a solid business. I believe it is well insulated from Amazon's onslaught, and earning a 5.84% yield is a great way to grow your income. I say buy.

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Date
2025/08/27
Date Created
2017/06/28
Author
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