Is Canadian REIT a Buy After Posting Q2 Earnings?

Description

Canadian REIT (TSX:REF.UN) released its second-quarter earnings which showed the company's net income rise by over 67% from a year ago — up to $66 million. However, the company's rental revenue was only up $2 million year over year. On a per-share basis, income improved from $0.55 a year ago to over $0.91 in the most recent quarter.

The biggest reason for the improvement in the company's bottom line is a reduction in fair-value losses of $25 million last year, which were just $6 million in the current quarter. The other big improvement came from an additional $5 million in income from investments. Combined, these changes contributed an additional $24 million to the bottom line, making up most of the $26 million improvement in net income.

Portfolio occupancy rates continue to increase

The company has seen its occupancy rates increase to an average 94.9% for the quarter — up from 93% a year ago and 94.6% in the previous quarter. Canadian REIT's retail portfolio is averaging 96.6% occupancy, while its office locations are the lowest at just 91.6%.

The company's retail portfolio has many big-name retailers anchoring its locations, including **Canadian Tire Corporation Limited, Loblaw Companies Ltd.**, **Suncor Energy Inc.**, and many others. Canadian REIT notes that its portfolio only has two Sears locations in its retail mix, so the company is minimally impacted by the closure of Sears stores.

The main challenge that the company faces in its office portfolio is the Calgary market, which has been adversely impacted by the struggling Alberta economy, specifically the province's oil and gas industry. As the industry and economy picks up in Alberta, so too will occupancy rates for the office locations in this region.

Outlook

Although Canadian REIT is impacted by the increase in interest rates, a 25-basis-point change is not going to have an adverse effect on the company's financial performance. Instead, the company recognizes the rate hike as a potentially positive sign of an improving economy, which could lead to an improvement in its occupancy rates and overall revenue growth.

Stock valuation

Canadian REIT's stock has seen a lot of fluctuation this year with it yielding a loss of over 2% year to date. Currently, the stock is trading at its book value and over 21 times its earnings. By comparison, **Morguard Real Estate Inv.** (TSX:MRT.UN) trades at under 16 times earnings, and **Smart REIT** (TSX:SRU.UN) trades at a little over 16 times.

Bottom line

The stock may be a bit expensive when considering comparable companies are trading at lower multiples. With Canadian REIT not seeing much of an uptrend in price this year, it may not present the best option for short-term growth. The company's dividend of just over 4% also doesn't offer the most appealing payout either.

Both Morguard and Smart REIT offer more attractive dividends with the former paying out almost 7% and the latter yielding over 5.5%.

Given the options available, it might be better to opt for a REIT that trades at a smaller multiple and offers a better dividend. Canadian REIT looks to have a promising future and will likely continue to grow, but I would wait for the stock to first show some signs that it is able to find support a higher price point before investing in it.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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