



REIT With 5% Yield and Capital Appreciation Potential Screams BUY ME!

Description

Recently, the results of **Dream Office Real Estate Investment Trst's** ([TSX:D.UN](#)) substantial issuer bid (or dutch auction) were released. On the news that the company expects to repurchase almost 21 million shares at the price of \$21, shares hit a 52-week high of \$20.62 per share this past Friday.

Although the company is repurchasing shares at a price slightly above the fair market value, it is important for long-term investors to note that the current price still reflects a discount to the company's tangible book value. As of the end of March 2017, the assets minus liabilities divided by the total number of shares outstanding still worked out to be close to \$22.30 per share. The current price of less than \$21 continues to reflect a discount.

Given that 21 million shares have been repurchased, the company has successfully shrunk the total number of shares outstanding from more than 103 million shares to approximately 82 million shares. In turn, the earnings from the remaining investments within the trust will be divided over fewer shares, which could mean residual cash flows and a higher amount of retained earnings. Close to one year ago, company management made one goal very clear: to close the gap between the number of shares outstanding and the share price.

Trading in the range between \$15.95 and \$20.62 over the past year, company management has so far been successful. To make this investment even more attractive, the dividend, which was previously so high that it acted as a headwind for the share price, has been cut to yield 5% at a share price of \$20. The dividend is currently \$1 per year and is paid monthly.

Given the increase in interest rates, many investors have chosen to exit this investment as the yield has not only been cut, but the spread between the risk-free rate of return and the dividend has also narrowed due to the increase in overnight rates. Investors have taken notice.

The good thing that results from a modified dutch tender auction, which retires close to one-fifth of the company, is that many shareholders that had previously invested in the company have been kicked to the curb. Many of them might want to rejoin the party once the company reports a few quarterly earnings. Time will tell.

The current 5% dividend yield is only the tip of the iceberg for investors. Given that the dividend-payout ratio is set to decline over the coming quarters, investors may receive a nice surprise as the share price could increase either due to the increase in retained earnings or due to the normal course issuer bid (standard share buyback) machine which is expected to continue.

With a tough year behind it, the company has clearly turned the corner and is in prime position to be the breakout stock for the second half of 2017.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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