# Smart REIT Posts Q2 Profit Growth and 98.4% Occupancy: Is it a Buy?

## Description

**Smart REIT** (TSX:SRU.UN) released its quarterly earnings on Wednesday, and despite revenues dropping by more than 8%, the company was able to grow its net income by over 61%. However, if not for fair value adjustments in the company's assets, which totaled $54 million, overall net income would have seen a decline of $7 million, or a drop of 9% from last year.



Let's dig a little further into the company's financials to see if Smart REIT presents a good buying opportunity.

### Continued high levels of occupancy

Smart REIT has been able to maintain its high occupancy rate of 98.4% for the quarter, which has even seen a slight improvement from last year's rate of 98.2%. A big reason for the company's strong occupancy rate is because it has many big tenants, and the top 10 make up almost 50% of Smart REIT's revenue.

The company's biggest tenant is **Wal-Mart Stores Inc.**, representing over 26% of rental revenue for Smart REIT. Other big tenants include **Dollarama Inc.**, **Canadian Tire Corporation Limited**, **Loblaw Companies Ltd.**, and many others. The tenants the company has are low risk and provide a lot of stability in Smart REIT's portfolio.

Having a big tenant like Wal-Mart anchor many locations is definitely a strength, even if it does give the big-box store a lot of leverage by being such an important customer. To put it into perspective, Smart REIT has 142 shopping centres, and 95 Wal-Mart stores anchor most of those locations.

### Dividend increase

The company has mentioned that it will be increasing its annual dividend from $1.70 to $1.75 per share and will now yield over 5.8% based on Wednesday’s closing price. The dividend hike takes effect in November and is the fourth consecutive year that Smart REIT will have increased its payout. The company has also been able to maintain a safe payout ratio, and last quarter saw just 77% of its funds from operations paid out as dividends.

**Outlook**

Given the challenges the retail industry has faced as a result of the departure of **Target Corporation** and the recent Sears closures, Smart REIT has noted that its opportunities to further develop more retail properties are going to be limited in the short term since, in many locations around the country, supply exceeds demand.

However, the company is still involved in developments, and one of its flagship locations, Toronto Premium Outlets, is still undergoing expansion. In addition, Smart REIT recently acquired 12 locations from **OneREIT** for $430 million. This acquisition includes a portfolio of 2.2-million-square-feet worth of properties and will add another six Wal-Mart locations to the company’s tally.

**Bottom line**



Smart REIT presents an attractive investment as the company has been able to maintain high occupancy rates and provide a growing dividend to investors. The company’s stock is currently only 3% up from its 52-week low and could present an excellent buying opportunity for value investors, especially if the stock should see a further decline in price.

The company’s earnings multiple may be a tad high, but considering the growth that Smart REIT has shown, and having a big name like Wal-Mart anchor most locations may be justification for the premium.

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