Is Canadian Apartment Properties REIT a Buy After a Strong Q2?

Description

Canadian Apartment Properties REIT (TSX:CAR.UN) released its quarterly results earlier this month. I'll look at how the company did, the strength of its financials, and if you should consider buying the stock.

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The company owns and operates residential rental properties, including apartments and townhomes, in many large urban centres in various locations across Canada. Although it's predominantly in Canada, Canadian Apartment Properties has locations in Europe as well, specifically in Ireland and the Netherlands.

The stock is a little different than many other REITs in that it focuses on apartments and residential spaces; other trusts rely more on commercial tenants.

This stock would allow you to diversify some of your holdings if you already hold other REITs that are more focused on commercial or industrial properties.

Strong sales growth

The company's second-quarter results showed revenues climbing to $157 million — up 7% year over year. Profits in Q2 were also strong with over $102 million, and although they're down from the previous three quarters, they were up by over 4% from a year ago.

Canadian Apartment Properties has been showing strong growth over the years with $596 million in revenues for fiscal 2016, up from $477 million in 2013 for an increase of 25% in just three years.

The company's profit growth over the past three years has been even more impressive, going from $267 million to over $439 million, up 64% for an annual compounded growth rate of 18%.

Stock performance

In the past five years, Canadian Apartment Properties has seen its stock price appreciate by over 32% and by 9% in the past year.

By comparison, **Milestone Apartments Real Estate Invt Tr** (TSX:MST.UN) has outperformed the company in the past five years with returns of over 121%. However, in the past year, Milestone's stock has appreciated by only 6% in price.

Good and safe dividend yield

Currently, Canadian Apartment Properties pays a dividend of around 3.75% per year. The payouts are made by the company on a monthly basis and were already increased earlier this year by over 2%.

The current yield is very safe with the company's payout ratio averaging around 70% of its funds from operations, suggesting there could be room for growth.

Future outlook

The company believes it is in a good position to handle any unfavourable economic conditions by having a portfolio that is diverse in both geography and demographics.

Canadian Apartment Properties also has a low debt-to-equity ratio of 0.8, ensuring the company's operations are not bogged down by interest payments or debt obligations.

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Bottom line

This stock has shown a steady climb, and although it has performed well over the years, you wouldn't expect it go shoot up overnight. Instead, this is more of an investment you might want to make if you want to diversify your holdings and perhaps add to your dividend stocks.

For instance, if you have an investment in **Canadian REIT,** which has a diverse commercial portfolio, Canadian Apartment Properties will help you have a broader exposure to the real estate market.

In some respects, Canadian Apartment Properties might provide a more stable investment than other REITs because it relies on residential rent rather than retail businesses. A loss of a large retail tenant would leave a big hole in a company's portfolio compared to a residential tenant that is easier to replace.

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