Will These 2 High-Yield REITs Cut Their Dividends Again?

Description

Dream Office Real Estate Investment Trst (TSX:D.UN) and **Cominar REIT** (TSX:CUF.UN) have been primarily held by investors for high income. Yet both stocks slashed their dividends within the last couple of years.

Dream Office REIT cut its distribution per share by a third in early 2016 and again by a third in July. Interestingly enough, the stock rallied more than 30% in a few months after the first cut, and the shares trade at roughly that level today.

Cominar REIT cut its distribution per share by ~22% in August, but the stock has rallied ~9% since then.

Before the dividend cuts, Dream Office REIT and Cominar REIT yielded as high as ~14% and ~11%, respectively.

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Why they cut their dividends

Dream Office REIT is a transforming business. It had a sizeable exposure to resource regions. And, as a result, the business hasn't done well.

So, the company decided to reduce its exposure in Alberta. In February 2016, it generated 26% of its net operating income (NOI) from Alberta. By May 2017, it had reduced its exposure in Alberta to 14%. The number of properties in the portfolio reduced by ~36% to 106 properties, and the owned square footage shrank by roughly a third to 15.4 million.

This is a part of Dream Office REIT's multi-year plan to sell non-core assets. As it makes these sales, its cash flow generation declines. So, to have more resources on hand, the company cut its dividend to make it more sustainable.

Cominar REIT has also been selling some non-core assets, which will help strengthen its balance sheet. However, its dividend wasn't very sustainable to begin with, as the payout ratio was over 100%. The asset sales only worsened the situation. So, it cut its dividend.

Do dividend cuts spark higher share prices?

Dividend cuts in high-yield REITs don't necessarily lead to higher share prices in those stocks. Rather, the share prices of such REITs have been overly depressed in anticipation of dividend cuts, such that when it happens, it indicates the businesses will have more resources to work with, and the shares rally as a result.

Will they cut their dividends again?

At ~$21.10 per unit, Dream Office REIT offers a yield of ~4.7% with an estimated payout ratio of ~80.5% for this year. The company has a debt/cap of 34%. For now, its distribution is sustainable, but shareholders should keep up to date with its asset-sale program and how it affects its cash flow.

At ~$13.60 per unit, Cominar REIT offers a yield of ~8.4%. However, its payout ratio is estimated to be ~110% this year. So, shareholders shouldn't be surprised if it does end up cutting its dividend again.

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kayng