



Income Investors: Should You Buy RioCan Real Estate Investment Trust Today?

Description

RioCan Real Estate Investment Trust ([TSX:REI.UN](https://www.scribd.com/document/351111111/TSX:REI.UN)) is down 10% in 2017, and income investors are wondering if the stock is starting to look attractive.

Let's take a look at the current situation to see if RioCan deserves to be in your portfolio.

Financials

RioCan reported a 10.1% increase in Q2 2017 funds from operations (FFO) compared to the same period last year. When you take out the impact of the sale of the U.S. operations in 2016, the company saw FFO rise 25.5%.

Committed occupancy jumped to 96.7% compared to 95.1% at the end of Q2 2016, and retention rates increased to 93.9%.

Renewals were signed at an average rent increase of 4.7%. That was better than the 3.3% average increase in the same quarter a year ago.

On a continuing operations basis, net income rose 25.4% to \$142.2 million in the quarter.

Overall, the company delivered solid results.

Growth initiatives

RioCan has a number of commercial properties under development as well as a residential program.

The residential portfolio is worth watching, as RioCan plans to build up to 10,000 units over the course of the next decade at its core locations located in the main urban centres.

Distribution

RioCan pays a monthly distribution of 11.75 cents per unit, which provides an annualized yield of 5.9%.

Risks

Rising interest rates can be negative for REITs, as they tend to carry a significant amount of debt.

RioCan has done a good job of planning for interest rate hikes and recently reduced its debt load. The company used the proceeds from the U.S. divestiture in 2016 to lower its obligations to the point where the leverage ratio is now 41.5%.

On the demand front, online shopping is considered to be a threat to RioCan's customers. It's true that big department stores are under some pressure, but RioCan's tenant base is quite balanced. In fact, no single tenant represents more than 5% of revenue.

Based on the occupancy and rent increase stats, demand for the company's locations remains robust.

Should you buy?

The distribution should be safe, although I wouldn't expect increases in the payout to begin until some of the development programs are completed and start to boost cash flow.

The pullback might be a bit overdone, so income investors looking for a reliable above-average yield might want to add a bit of RioCan to their portfolios.

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