3 Catalysts That Could Send This REIT Substantially Higher

Description

The past few years have been fantastic for investors of **Pure Industrial Real Estate Trust** (TSX:AAR.UN), as shares have increased by more than 20% over the past year and by more than 35% over the past five years. To make things even more attractive for investors, the dividend yield has been as high as 6%, while currently settling closer to a 5% average yield. Shareholders in PIRET may be about to experience another significant run in the right direction, as shares are, again, ready to break out.

The first catalyst for a major move upwards is the company's expansion into the United States to serve A+ clients such as **Fedex**. Given that the borrowing to build new facilities happens in U.S. dollars (USD) with rents and expenses following in USD, the cash flow and profits left over for this Canadian gem are then reported back to shareholders in Canadian dollars (CAD). Essentially, each USD of profit can be worth closer to $1.20 of earnings in CAD for shareholders of PIRET.

Given the consistency of the dividend payments over the past five years, the second catalyst for shares is going to be the potential for a dividend increase. Already offering investors a yield close to 5% after a major run up in value, shares of this industrial REIT may be primed for a dividend increase. Currently trading at a price-to-earnings (P/E) multiple of less than seven times earnings, the dividends paid to investors represent no more than 68% of cash from operations (CFO) for the past full fiscal year and have remained consistent going into the first half of this year. The total dividend-payout ratio as a percentage of net income was 43% for fiscal 2016 and slightly under 30% for the first half of this year.

As the company continues to make money and retain a high amount of the excess cash being generated, investors are led to the third catalyst for price appreciation: the tangible book value. In the past, when the company's share price fell to a discount to tangible book value, the situation did not persist for very long. Essentially, the share price increased and shares traded at a premium, allowing the yield to decline in tandem. At a price close to $6.50 per share, shareholders are receiving tangible book value of approximately $5.82 per share, potentially putting a floor on the share price.

Given the increase in tangible book value from $5.24 to $5.82 in a one-year time frame, investors potentially have a lot to look forward to, as the company continues to increase revenues and retained earnings while maintaining a steady dividend. Similar to a dam which is overflowing, the question is, where is it going to break first?

In the next year, investors can expect either an increase in the dividend payments or major share repurchase. Only time will tell.

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Date
2025/07/08
Date Created
2017/10/17
Author
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