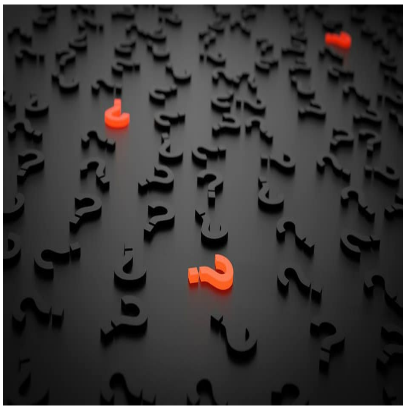

Are “Canada’s Largest” Companies Going in Opposite Directions?

Description

December 28 was an uncharacteristically volatile (read: bad) day for **RioCan Real Estate Investment Trust** (TSX:REI.UN), Canada’s largest REIT. At one point, RioCan was down as much as 3.6% before closing down 2.4%. RioCan typically trades in a narrow range; daily moves are no less than -2.15% and no more than +1.87% in for this year.

Was this tied to shocking news? No. Were earnings revised? Not recently.

Here’s a list of possible explanations and insight on RioCan.

Is big money is pulling out?

It’s not possible to know when or what mutual funds are buying and selling, but the big price drop on reasonably high volume could be a sign that fund(s) are exiting. The last time RioCan had high volume price drop was October 13 — coincidentally, a dividend distribution day.

I may be reading too much into this combination of volume and price action. At these levels, RioCan is favourably priced. In fact, CEO Edware Sonshine — who, in 2013, was crowned Canada’s Outstanding CEO of the Year — just increased equity in the company, according to an insider report, buying more shares for $24.92. That is a solid peg in the ground for price support, in my opinion!

Property sell-off continues

Earlier in December, RioCan announced it was selling 50% of a mixed-use (retail and residential) development in Toronto to Woodbourne Canada Partners for $8.8 million. This mid-town property at 740 Dupont Avenue is the second property RioCan has sold to Woodbourne after divesting a piece of Toronto waterfront real estate.

In November, RioCan also sold $150 million worth of properties to **CT Real Estate Investment Trust**; these were properties mainly in Hamilton, Orillia, Sudbury, as well as in Saskatchewan and British Columbia. If you come for the school of “never sell any property,” then you too may be puzzled by these moves. But RioCan’s portfolio still consists of 294 properties — approximately 45 million square feet of leasable area. These sales free up cash.

Deals and debt

Like any other company, RioCan could raise funds by issuing corporate bonds, but this strategy is less appealing if interest rates rise. RioCan's longest corporate bond reaches maturity in 2024 and pays a 3.287% coupon. Bond investors may demand a better rate, which they could get from telecom bonds that mature over the same time horizon. Reducing debt to reduce risk seems to be RioCan's mantra. You can't fault that philosophy. The company's enterprise value is $14 billion, and the debt-to-equity ratio has crept up to 0.76 — the latter figure being above the long-term average.

Meanwhile, December 28 was a good day for **Saputo Inc.** (TSX:SAP) shareholders. This stock was up as much as 3.3% and closed up 1.38%. This is a sign that the bullish run for Saputo — also a "Canada's biggest'" company for dairy products — which started in July will continue. I wrote favourably about Saputo previously, because I liked the low debt and the increased earnings potential from new global exposures. The current enterprise value for Saputo is $18 billion, and the debt-to-equity ratio is 0.37. Saputo has one corporate bond that was first offered in 2016 with a coupon rate of 2.827 with a maturity in 2024.

You could pick either of these two stocks and do well over the long run. Neither company is fading from grace, but they are taking different paths. Picking Saputo over RioCan amounts to cheering for a stock on a roll compared to a potential comeback story.

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