Boardwalk REIT: Should You Dump or Keep This REIT?

Description

Boardwalk REIT (TSX:BEI.UN) moved up nearly 3% on Monday — a sizable jump after a difficult year. The one-day move is more than this stock typically moves in one month. How about a deeper dive on this REIT?

Two-thirds of this Calgary-based REIT are properties in Alberta, where business has had downward pressures from oil producers and prices and wild fires.
Shareholders will wait until Monday, February 26, 2018, for the next earnings report to see whether things are turning around. Will there be enough good news to keep committed to this investment?

It is good to step back and think about your investment principles. Buying shares is often an easier decision than selling. Choosing to sell shares might be because you realize (read: admit) that you were wrong about a company. The reasons to invest might also have changed. Creating exit criteria is a good way to stay principled.

Has the investment thesis changed for Boardwalk shareholders?

Reasons to dump

Dividend cut: The monthly dividend went from $0.1875 to $0.0834. This was announced in late 2017 and took effect this month. The yield went from 5.1% to 2.29% (the yield calculation is 12 months x distribution amount / stock price). Relative to other REITs, Boardwalk went from a high dividend to below average.

Warning signs were there: In 2016, the funds from operations had dropped to below pre-2012 levels. Operating income has been dropping since 2015, which explains why the operating margin went from 35% to 22% current levels.

Trimming in the wrong places: In 2016, management said they did not intend to buy any more apartments. This past December, Boardwalk reported selling an apartment unit to **Mainstreet Equity Corporation** for $71 million. The problem is that the 641-unit property is in Regina, Saskatchewan. The desire to sell in a softening Regina apartment market must have been stronger than the need for a more geographically diverse portfolio (recall the Alberta property bias).

Lacking vision for tenants: Boardwalk properties tend to fetch lower rent prices when compared to market averages. This could be a way of setting attractive prices to ensure low vacancies. It could also be a sign that the Boardwalk brand is not top shelf, thus units don't go for top dollar. CEO Sam Kolias may have eluded to this when he stated recently that he has learned valuable lessons about brand diversification.

Reasons to stay

More cash in hand: If you are not put off by a company that cuts its dividend, then you may be happy with the extra cash that will soon be available following the 55% cut to the dividend. With a dividend savings of $0.10 per share, the company will have an extra ~$62 million on hand in 2018. This would take free cash flow levels to within a 2013 peak, when the company had $163 million in hand. More cash on hand will help capital investments.

Focus on urban intensification: Strategic partnership — like the one developing with **RioCan Real Estate Investment Trust** — is still part of Boardwalk's master plan. The Brentwood Village project in Calgary will have both residential units and a shopping centre. Boardwalk is getting this right: moving to where the ball will be, to use a sports metaphor. Boardwalk needs to execute more small wins to turn things around.

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