



## Massive Changes Are Happening at This Large REIT: Should Investors Bet on an Upside?

### Description

**Cominar REIT** (TSX:CUF.UN) units took a hit after a release of financial results on March 7, as management announced a whole host of strategic changes. The REIT's equity valuation may continue subdued in the near term, as investors assess potential performance of the new arrangements, while feeling the agony of another distribution cut.

The sharp 6.03% decline in Cominar's unit price to \$12.93 by March 9 in a sell-off as investors rushed for the exits wiped out all the valuation gains from earlier strategic transformation attempts made in August 2017, but the units seem to have recovered some of the losses to date.

Should investors bet on a sustained recovery for capital gains or bail out before the units take another dip?

We may need to look at the latest announcements for an answer.

### Distribution cut

Cominar REIT has recently cut its distribution, again!

The REIT [cut its monthly distribution](#) by nearly 27% to \$0.09 per unit in August last year, while credit-rating agent DBRS, which downgraded the REIT's unsecured debentures to speculative grade last year, expected a bigger cut in the 60% range to maintain payout sustainability.

Just as [previously feared](#), Cominar has announced a 33% distribution cut in just over six months, this time to \$0.06 per unit monthly, slashing the forward income yield from 8.62% to a lower 5.43% today.

The income loss hurts and warrants a valuation decline on the units.

### Upsized unit-buyback program

Cominar announced an upsize of its unit-buyback program on January 10, from nine million units to

nearly 17.6 million units, and the purchases will likely run until November this year.

While an increased buyback will support the market valuation of Cominar units, as it reduces the number of outstanding units and increases the net book value per remaining unit, the increased budget for the exercise also means the REIT is diverting cash that was previously meant for development projects and debt repayment towards the normal course issuer bid.

### **Management shake-up**

Cominar is undergoing significant changes in management. Long-serving senior management, including former chairman Michel Dellaire and G. Laberge, have exited after 20 years of service, and new trustees Paul Campbell and Rene Tremblay are coming in just as newly appointment chairman Alban D'Amours is getting used to his new role.

This new management team is coming in at a time Cominar is undergoing significant restructuring, and there is a big execution risk. The team deserves the benefit of doubt, but it may fail to smoothly manage REIT transformation due to the overwhelming issues to be dealt with right now.

### **Recent asset sales**

Cominar is on course to close the \$1.14 billion sale of its non-core portfolio this March. The REIT intends to focus on its core market, where it has historically been more competent in leasing properties and generating higher cash flows.

The sales mean reduced internal cash flow generation for future distributions.

### **Internalization of critical activities**

The REIT has decided to internalize some of its construction services, while diversifying its use of outside construction suppliers. Cominar intends to reduce its use of Groupe Dellaire services in "an orderly manner" over the next 12 months.

The Groupe Dellaire seems connected to the former REIT chairman, and the latest move by new management may imply that Cominar was not saving enough on expenses, while employing a related party.

It's up to investors to judge if this was the case as time goes on.

### **Investor takeaway**

The yield on Cominar units has been significantly cut, and income investors aren't happy, but contrarian investors may be looking at the REIT with some interest as Cominar restructures its business processes.

Cominar's management is keen on turning around the fortunes of the large REIT, and if successful, the valuation of the units may significantly improve if the new Cominar 2.0 strategy works out, but investors should approach this play with some caution.

Income investors are much better off looking over at competing REITS like **Dream Global REIT**

(TSX:DRG.UN) and **Northview Apartment REIT** (TSX:NVU.UN), which offer higher yields of +6% at a much lower risk.

Until there are signs of success with Cominar's new strategy, new income investors may find better sleep investing somewhere else.

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brianparadza

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