RioCan Real Estate Investment Trust (TSX:REI.UN): Time to Buy?

Description

RioCan Real Estate Investment Trust (TSX:REI.UN) has staged a modest rebound over the past two months after hitting a 12-month low in late April.

Let's take a look at the current situation to see if Canada's shopping mall giant deserves to be on your buy list right now.

Interest rate headwinds

REITs have taken a hit over the past year amid a wave of rising interest rates. The market is concerned that higher rates will entice investors to dump go-to income stocks, such as REITs, and put their money in GICs.

In addition, REITs tend to carry significant debt. As rates increase, borrowing costs follow suit, potentially consuming cash flow that would otherwise be available for payouts to shareholders. Bond yields have pulled back from the highs they hit in the spring, which is probably why some REITs and utility stocks have recovered lost ground.

The Bank of Canada and the U.S. Federal Reserve are expected to continue their rate-hike trends over the near term. Concerns over the economic impact of a global trade war could force them to put the process on hold, but investors should assume rates will continue to rise when evaluating RioCan.

Strategy shift

RioCan is working its way through a major transition.

The company has decided to focus its business on six core Canadian markets and is monetizing non-core assets in secondary markets across the country. Management intends to raise $2 billion through the property sales and already found buyers for about $800 million of that total. The proceeds are being used to shore up the balance sheet, buy back trust units, and help fund ongoing developments.

RioCan has an aggressive portfolio of mixed-use projects on the go that will see residential units built at its top urban locations in major cities. The first four developments, located in Toronto, are scheduled for completion in 2018 and 2019.

In total, the company has said it could build up to 10,000 residential units over the course of the next decade.

Earnings

RioCan reported a 1.9% increase in first-quarter operating income compared to the same period last year. Funds from operations (FFO) rose 4.5% to $149 million. On a per-unit basis, FFO increased6.1% to $0.44.

Committed occupancy was 97.9% in Canada's six major markets, so the company continues to see strong demand for its retail locations.

Distributions

RioCan pays a monthly distribution of $0.12 per trust unit. At the time of writing, that's good for an annualized yield of 5.9%.

Should you buy?

Rising interest rates are a headwind for the REITs, but RioCan's strong development pipeline, in addition to its debt reduction efforts, should support distribution growth in the coming years.

The existing payout looks safe, and the rebound in the unit price could continue, as the first group of mixed-use developments moves closer to completion.

If you are searching for a reliable income pick, I think RioCan deserves to be on your radar today.

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aswalker