A Wonderful Stock Disguised As a Horrible One

Description

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) is a wonderful stock in disguise. On the **Toronto Stock Exchange**, the stock trades at about 18% above its all-time low. However, it's actually trading at its all-time low level on the NASDAQ. The reason for the discrepancy is that the U.S. dollar has strengthened against the Canadian dollar and the limited partnership reports in U.S. dollars.

Brookfield Property offers a higher yield than you may think

Google Finance indicates Brookfield Property offers a roughly 5.4% yield on the Toronto Stock Exchange. In reality, it actually offers a yield of closer to 7.1% — again, because of the translation of U.S. dollars to Canadian dollars.

The company pays out U.S. dollar-denominated cash distributions, so unitholders actually get roughly 30% more in income when you convert the cash distribution from U.S. dollars to Canadian dollars.

Brookfield Property is a wonderful business with a sustainable dividend

The stock looks horrible trading at its all-time low. However, it's actually a wonderful business. The company generated the same funds from operations (FFO) of US$1.04 per unit in the first nine months of the year compared to the same period in 2017.

So, the business operations remained stable, but the stock price is nearly 19% lower on the NASDAQ and more than 14% lower on the Toronto Stock Exchange from a year ago.

Based on the FFO per unit of US$1.04, the company's payout ratio was 91.3% in the first nine months of this year, which is a tad high. Some investors worry about a potential dividend cut. However, if you also count the company's realized investment gains in the period, you get a much better payout ratio of 84%. Selling mature assets to realize gains is the normal course of business for Brookfield Property. In 2017, it realized investment gains of US$0.07 per unit. This year, it realized gains of US$0.09 per unit.

Brookfield Property has a quality and diversified real estate portfolio

Brookfield Property has a core office and retail portfolio. In its core office portfolio, it has 150 premier office properties from around the world (i.e., the United States, Canada, Australia, the U.K., and more) that totals 99 million square feet. It also has 11 million square feet of core office and multifamily development projects under development.

It has 8.7% exposure to its top office tenant, which are government and government agencies from various locations with AA+ or AAA credit ratings. It has a weighted average lease expiry of about 17 years with these tenants. It has about 2.5% exposure to each of its second and third largest tenants, which are **Barclays** and **Morgan Stanley**, respectively. They also have long lease expiry dates of 15 and 11 years, respectively. It has about 32% exposure to its top 20 tenants with leases at least eight years.

In its core retail portfolio, it has 125 best-in-class retail properties totaling 122 million square feet throughout the United States. Management expects to increase earnings from its core portfolios via leasing and development activities. Beginning this year, Brookfield Property has also developed urban multifamily units and will start selling condos next year, which will also drive earnings growth.

Additionally, Brookfield Property has about 20% of its balance sheet that aims for higher returns of 18-20% by buying mispriced assets with outsized upside potential.

Investor takeaway

With Brookfield Property trading at a discount of more than 36% from its net asset value (NAV) and offering a cash distribution yield of about 7.1%, it's a wonderful income stock that also has substantial upside potential should it trade closer to its NAV in the future.

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