The Best Canadian REIT Stock for 2019

Description

On January 15, **Artis Real Estate Investment Trust Unit** (TSX:AX.UN) declared its monthly dividend of $0.045 per share. At the time, that resulted in a yield of more than 7%. Afterwards, the stock inched up a bit, but buying shares today still gives you an annual dividend yield of more than 5%.

But the value behind Artis stock goes far beyond its income potential. Over the past 12 months, the company's stock was unfairly punished, dropping by more than 30%. On its latest conference call, executive Armin Martens described Artis as a "bulletproof REIT with a great payout ratio and good positive cash flow."

Here's why Artis will be the best Canadian REIT stock for 2019.

Trust in this long-term vision

While Artis stock has been hit in recent months, its long-term performance is what investors should pay attention to. Currently, it appears the market is pricing in too much short-term pessimism, despite consistent historical success.

Over the past decade, Artis stock has returned more than 190%, equating to an 11.3% annual return. The TSX, over the same period, returned just 103%, or 7.4% annualized.

This stretch of outperformance was driven by a simple model: acquire differentiated assets in major markets with high occupancy rates. This allowed Artis to aggregate more than $4 billion in core assets capable of establishing long-term contracts with world-class tenants, reducing volatility and increasing cash flow visibility.

A transformation is underway

Last year, Artis management opted to optimize its approach. Over the past few years, it had acquired many non-core assets in different markets and verticals than the past. Today, roughly $900 million in assets are considered to be "non-core."

Over the next three years, the company plans on divesting these assets, returning its focus to areas it knows well. Specifically, management wants to develop more industrial properties in its core markets.

To assist in its transformation, management decided to cut its dividend by 50%, arriving at the current monthly rate of $0.045 per share. This move alone provided $83 million in new cash flow per year, giving the company the financial flexibility to monetize its non-core assets opportunistically.

While the market punished the company for the dividend cut, these fears are misplaced. The company could have kept the dividend steady, thus monetizing its assets more quickly and likely at less attractive prices. By reducing the dividend, Artis was able to create a monetization plan that will span three years. Management anticipates selling non-core assets at or above their stated IFRS values, so shareholders won't need to stomach a fire sale.

Artis is betting on itself

After the sell-off, management started repurchasing company stock through its existing NCIB. Management knows that while the dividend cut was unpopular, it was the best path toward creating shareholder value over the long term.

Over the next few years, expect Artis to transition toward a healthier, more refined business model focused on stable, high-growth markets that it knows well. While you wait, the company will pay a revised 5.2% dividend that is well protected. Combined with share repurchases, Artis is shaping up to be an ideal turnaround candidate.

With an attractive yield, proven management team, and new growth prospects fueled by a reasonable turnaround plan, this looks like a rare opportunity to buy a dividend stock with large amounts of multi-year upside.

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