



This Small-Cap REIT Might Be the TSX's Top Growth Story

Description

One of the big problems with growth investing — at least from this analyst's perspective — is all the good names always trade at huge valuations.

The secret is to find the kind of stock that can grow uninterrupted for decades, but before other investors figure it out. That way we can have our cake and eat it too, getting a fantastic growth story at a reasonable price.

This is easier said than done, of course. History is littered with the next sure thing that fizzled and didn't work out. Even the best ideas are fraught with risk. But the risk is well worth it when you find a name that has the potential to truly transform your future.

I believe a little-known Canadian REIT has that ability. Let's take a closer look.

The skinny

Automotive Properties Real Estate Investment Trust ([TSX:APR.UN](#)) is a unique Canadian real estate investment trust. The company owns some 55 auto dealerships across Canada, properties it then rents back to operators.

It's a perfect win/win scenario. Say a large dealership in a major center costs \$20 million. Perhaps \$15 million of the value is real estate. This means that if an operator owns the underlying real estate, then it must tie up the majority of its capital into those assets. It makes sense for the operator to flip the property to Automotive Properties, and then pay rent. The dealership frees up capital and Automotive Properties makes a sound investment.

The operator also wants stability, so it's willing to sign a long-term lease. The typical Automotive Properties lease has more than 12 years remaining.

When Automotive Properties had its initial public offering back in 2015, 100% of its revenue came from the Dilawri Group, which is Canada's largest car dealership group. Dilawri would acquire a dealership and then flip the property to Automotive Properties, freeing up capital, which allows it to expand much

faster.

Although Dilawri still makes up a big portion of the company's revenue today, Automotive Properties has done a nice job expanding beyond its main tenant. It now owns locations operated by five of Canada's top ten dealership groups and just 64% of revenue comes from Dilawri. Automotive Properties has doubled its assets and total leasable area since its IPO.

Expansion potential

Canada's auto dealership market is incredibly fragmented. The vast majority of dealerships are owned by individuals, not large companies. One estimate says that 50% of dealership owners own just one location.

Many of these owners are baby boomers who are nearing retirement age. Some will pass the business on to the next generation, but many more will simply want out.

Dilawri, the top dealership group in Canada, has 72 locations, which is just 2.1% of the whole market. Combined, the top 10 dealership owners control about 11% of the market, which doesn't even include potential dealership growth. Both China and India have automakers who plan to expand into North America over the next five years. Ride sharing could also encourage more auto sales.

Valuation

Normally investors would have to pay a pretty penny for this sort of expansion opportunity, but Automotive Properties is trading at a surprisingly attractive valuation.

Analysts estimate Automotive Properties will generate approximately \$0.95 per share in adjusted funds from operations (AFFO) in 2019. Shares currently trade hands at \$10.30 each, which gives us a price-to-AFFO ratio of under 11 times, quite attractive for a stock with this kind of growth potential.

The best part? It pays a great dividend while we wait for the long-term growth story to play out. The current distribution is \$0.80 per share annually, which works out to 7.8% yield. The payout should be approximately 85% of AFFO next year.

The bottom line

Automotive Properties is not a huge company today. It has expanded to own approximately \$2 billion worth of real estate and it looks like it's just getting started. It has potential to pick up additional Dilawri properties and other assets in the Canadian dealership market. It also has potential to expand into the United States. Investors would be smart to grab themselves a piece of that rosy future today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:APR.UN (Automotive Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/20

Date Created

2019/02/05

Author

nelsonpsmith

default watermark

default watermark