



Will You Buy This Turnaround REIT for Attractive Upside?

Description

The market was positive about **Boardwalk REIT's** ([TSX:BEI.UN](#)) fourth-quarter and full-year results, as the stock rose +4%. The residential real estate investment trust (REIT) has been struggling since the collapse of oil prices in 2014 because of its large exposure to Alberta, but the pain may finally be over.



WTI Crude Oil Spot Price data by YCharts. The five-year WTI oil price.

Improving fundamentals

Boardwalk's 2018 results indicate improving fundamentals with same property rental revenue and same property net operating income (NOI) rising 3.9% and 5.5%, respectively.



Boardwalk's portfolio diversification

At the end of 2018, Boardwalk owned and operated more than 33,000 residential units across over 200 properties. Unfortunately, due to its large exposure to resource regions, it will be affected by the ups and downs of the economies in those geographies.

In 2018, Boardwalk generated 64% of its total rental revenue from Alberta, 12% from Saskatchewan, 6.5% from Ontario, and 17.5% from Quebec.

In the long run, management aims to reduce its exposure to the resource regions such that it'll have about 50% of the portfolio in high-growth markets of Alberta and Saskatchewan.

For instance, Boardwalk is diversifying outside of the resource regions with a joint-venture development of a 365-unit, two tower residential community in Brampton, Ontario.

Dividend safety

Looking at a REIT's funds from operations (FFO) is analogous to looking at a company's earnings. Since 2014, Boardwalk's FFO per unit has declined by about a third. In 2018, Boardwalk generated FFO per unit of \$2.21, an improvement of 4.7% compared to 2017.

In 2018, Boardwalk slashed its cash distribution by nearly 56%. The annualized cash distribution of \$1.00 per unit resulted in a much more sustainable payout ratio of about 45%.

At \$42.54 per unit as of writing, Boardwalk offers an unattractive yield of 2.35%.

Upside potential

Boardwalk reported a net asset value per unit of \$62.56, which can be viewed as the REIT's fair value. Investors can think of this as a multi-year target for the stock with a strong recovery from the Albertan economy as a backdrop.

As of writing, the stock trades at a price-to-FFO ratio of about 19, which is rather high and indicates that the stock is priced with the expectation of high growth as [a turnaround story](#).

Bank of Nova Scotia has a one-year target of \$50 per unit on Boardwalk, which represents near-term upside potential of about 17%.

Investor takeaway

Boardwalk's fundamentals are improving. It estimates 2019 same-store NOI growth of 4-9% and FFO per unit of \$2.35-2.50, which would indicate growth of 6-13% over 2018, suggesting that the stock is roughly fairly valued today.

Investors should view Boardwalk as a low-yield stock that can experience strong upside should the Albertan economy continue on its [recovery](#) path.

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