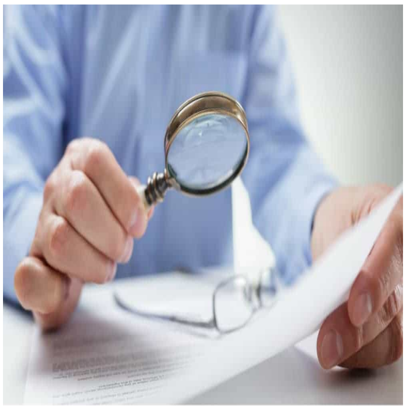

Major Moves Transform This 5.6% Dividend Stock

Description

Canada's largest real estate investment trust (REIT) **Choice Properties** (TSX:CHP.UN) has taken several monumental steps over the past few months to transform its business and expand its competitive advantage over rivals.

Last May, it acquired Canadian Real Estate Investment Trust (CREIT) to diversify its portfolio mix. This May, the company's president and CEO Stephen Johnson will retire and be succeeded by the chief operating officer, Rael Diamond.

Johnson's retirement comes after he spent 20 years of his life leading CREIT and turning it into a real estate juggernaut. If you'd invested $10,000 in CREIT shares when it went public in 1993, those shares were worth $261,000 when the deal was completed last year.

Johnson's departure and the leadership shakeup is another part of the broader transformation of the country's largest REIT at a time when Canadian real estate is facing some major challenges and as concerns over a possible recession continue to mount.

According to the company's most recent quarterly report, Choice manages 753 properties, representing 67 million square feet of gross leasable area spread across all 10 provinces in Canada. Of these, 599 are retail; 113 are industrial; 16 are office; 22 are land; and three are residential. In other words, nearly 80% of the properties are retail.

Choice is now trying to change that by investing in mixed-used properties in the country's fastest-growing metropolitan regions. Nearly a third of the trust's $1.2 billion development program will be residential. This will add 70 properties in Vancouver, Edmonton, Calgary, Toronto, Ottawa, and Montreal.

This development strategy was also recently adopted and has the potential to transform the REIT. By building new properties from the ground up, Choice can augment the portfolio and boost net assets intrinsically instead of reaching out for new acquisitions. Over the next few years, this $1.2 billion development plan will add 3.4 million square feet or 5% to the REIT's portfolio.

Meanwhile, Choice's parent company **George Weston** will continue to support growth with its stable cash flows and $2 billion cash balance. George Weston took over control last year to diversify its own business and to boost property developments under the Choice REIT.

The effects of all these transformational moves are now being reflected in the quarterly results. In its most recent quarter, Choice reported occupancy of 97.7% and same-property net operating income (NOI) growth of 3.6% for the full year. This indicates that the fundamentals have remained intact, even as the CREIT transaction caused dilution and cut funds from operations per share by 9%.

Throughout 2019 and beyond, Choice is likely to keep buying new properties, developing new assets, and expanding income from operations. If the portfolio can be diversified enough before the economy takes a hit or the growing competition in the retail sector starts to bite, Choice could unlock immense value for investors.

Bottom line

Choice Properties's transformation is likely to continue unabated throughout 2019 and beyond, unlocking value for long-term shareholders.

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