Income Investors:-Is This REIT’s 6% Yield a Buy After Earnings on Thursday?

Description

Cominar Real Estate Investment Trust (TSX:CUF.UN) units have had a good start to 2019 after trading up nearly 8% year-to-date, and investors will gladly welcome any further capital gains on their investment if the REIT manages to garner success with its new Cominar 2.0 strategic focus.

The REIT released a set of mixed annual financial results on Thursday that saw a temporary dip in its equity units’ market price, but I like the margin of safety in its 6.16% monthly distribution today.

Mixed results

Cominar made another write-down on the fair value of its retail investment properties of $265 million and recognised a goodwill impairment charge of $120.4 million related to its retail and office portfolios. The two portfolios have faced challenges for some time due to declining occupancy levels as the broader economy undergoes a structural change, and the retail market goes through a deep transformation.

Management is still working on leasing out the vacant space left behind after Sears Canada store closures, and this phenomenon no longer seems like a one-time event anymore as this happened before, but the recent increase in the retail portfolio’s client retention rate is a welcome development.

Overall, the REIT saw a marginal increase in same property net operating income of 1%, and this was some impressive performance given that there was a 3.4% decline in the same measure from the retail portfolio, which was more than made up for by a 4% gain in the industrial portfolio and a 3.5% rebound in the office segment.

Moreover, the REIT’s in-place occupancy rate increased during the year to 89.2%, which was a much better position than the 87.9% reading at the end of last year, but still there should be room for further improvement as management works hard on the troubled retail portfolio.

Committed occupancy increased last year to 93.6% at December 31, and there is the high chance that the rate could continue to improve as the new strategic focus gains recovery momentum. After all, the

REIT is now solely focused on its Quebec “home” turf after disposing over 95 properties from its non-core portfolio last year.

That said, leverage is still very high at a total debt ratio of 55.3% exit 2018, but there was a notable improvement during last year as the leverage ratio fell from 57.4% recorded on December 31, 2017. Any further interest rate hikes in the next three years could hurt earnings significantly as the REIT’s average debt maturity fell to 3.5 years exit 2018.

Most important, the REIT’s recurring AFFO payout ratio has significantly declined from 113.9% in 2017 to a very low 87.8% for 2018. The REIT’s reduced monthly pay out is now among the safest in the industry right now and investors may bank on the 6% yield to continue being realized for the foreseeable future.

Foolish bottom line

There is still some significant risk in the REIT’s underperforming retail properties portfolio, which constituted 36.8% of the overall portfolio exit 2018. Management continues to work hard to improve customer experience at its retail properties, which is commendable, but investor worries aren’t over yet after a massive write-down in portfolio asset values and goodwill from the segment last year.

Goodwill write-downs reduce the outlook on the capital gains potential on the units, reflecting management’s lower confidence about the portfolio’s return to historical profitability in the long term.

There is room to further reduce leverage too, which will reduce the risk of future payout cuts should interest rates rise significantly in the future, but the safer AFFO payout rate on Cominar units make the 6% distribution yield one of the safest in the industry today.

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