Up 38% Since IPO, Does This REIT Still Have Room to Grow?

Description

Although it flew under the radar for most investors**, Minto Apartment REIT's** (TSX:MI.UN) initial public offering was one of the biggest successes of last year. Since July 2018, the REIT's value has climbed over 38%, outpacing all but the most exciting tech and marijuana stocks.

Investor attention and enhanced resources have bolstered the team's ambitions, and Minto is currently on an acquisition spree to spur growth. But does the Ottawa-based developer have what it takes to go up against the country's real estate giants and carve out a piece of this lucrative pie for its shareholders? Here's a closer look.

Minto's portfolio

The REIT is a subsidiary of Minto Properties, the real estate firm controlled by the Ottawa-based Greenberg family that's been around since the 1950s. The parent company manages $2.9 billion in assets, including 13,000 multi-residential units and 2.7 million square feet of commercial space. With most of its assets concentrated in the capital region, Minto is one of Ottawa's largest residential landlords.

The publicly listed trust represents a portion of that portfolio, which includes 26 multi-residential rental properties comprising 5,961 suites spread across the country's key urban cities: Ottawa, Toronto, Montreal, Edmonton, and Calgary.

Recent acquisitions, such as the $209 million deal for over 1,000 apartments in Montreal and 400-plus units in Toronto, have been in line with this focus on urban cores. However, I believe the company's higher exposure to Ottawa mitigates its risk of getting caught up in Toronto's housing bubble. The trust also has no exposure to Vancouver, another frothy market.

Fundamentals

Although the REIT's 2.1% dividend yield is less attractive than some of its peers, the payout ratio is just 65% of adjusted funds from operations (AFFO), which indicates that the management is being conservative. Operating income that isn't immediately paid out as a monthly dividend is retained for future acquisitions, which should propel growth moving forward.

According to the trust's latest filing, management has access to $87 million in cash and other resources that can be deployed for further acquisitions. Meanwhile, the debt burden is less than half of the company's book value. The weighted average life and cost of its fixed-rate debt is six years and 3.17%, respectively.

Not to mention the fact that the trust is backed by the immense resources and experience of its parent company, which isn't entirely reflected in its official filings. Minto's financial strength and strategic moves indicate that the dividend yield could move substantially higher over the next few years.

Valuation

Considering the trust's financial strength and growth prospects, it may be fair to assume that Minto deserves a premium valuation.

Minto currently trades 30 times higher than its annual AFFO and 30% higher than its net book value at the time of writing. For comparison, **Canadian Apartments REIT**, one of Minto's largest rivals, trades at 24 times AFFO, 11% premium to book value, and offers a 2.8% yield.

It seems Minto's valuation isn't too far away from even the largest players in the industry, which could suggest it is currently either fairly priced or undervalued. Investors might want to monitor this opportunity closely.

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