



Alert: This REIT Will Likely Be Acquired Soon

Description

Amid all the carnage last week on the **Toronto Stock Exchange**, there emerged a bright spot from a pretty surprising source.

Normally, real estate stocks are more immune to a sell-off, since investors tend to be more long-term focused. Besides, we all know real estate is more recession resistant. Some tenants might go bankrupt during an economic downturn, but most know it's just temporary and will make efforts to maintain the status quo. And on the residential side of real estate, we know folks are always going to need a place to live.

But this downturn has been different. Everything went down last week, including Canada's top REITs. Investors are worried about the impact the Coronavirus will have on the overall economy, which means virtually nothing is immune from the sell-off.

One real estate stock bucked the trend, however, with shares rising nicely on Friday amid a sea of red. Here's why.

An acquisition target

After cutting its dividend in 2018, **Artis REIT** ([TSX:AX.UN](#)) has been transforming itself into a stronger company.

The payout ratio was cut significantly when management finally decided to [slash the unaffordable dividend](#) — cash Artis immediately put back to work in one of the more aggressive share-repurchase plans on the entire Toronto Stock Exchange. It spent some \$140 million — which is about 9% of its current market cap — to repurchase more than 12 million shares.

The company also sold unwanted properties and used the proceeds to make acquisitions in more desirable areas. As it stands today, Artis owns some 25 million square feet of gross leasable space spread between office, retail, and industrial property located in the western parts of Canada and the United States. In fact, Artis has quietly amassed about half of its portfolio in the United States.

Artis just released 2019's annual results, and it's obvious the strategy is working. The firm reported that funds from operations increased from \$1.30 to \$1.41 per share — a bump of around 8%. Same-property net operating income rose by 5.1%. And the balance sheet was improved significantly — flexibility that will be useful as the company spends on development projects.

Management has been pretty clear what the conclusion of this turnaround effort would be. It was announced back in the summer that Artis was pursuing “strategic alternatives,” which is essentially a code that says the company is up for sale. A few buyers likely sniffed around, but no deal looked likely to happen.

That all changed on Friday, when a story came out that there were several buyers interested in acquiring Artis. The list of potential bidders included many of the prominent names in the sector, like Slate Asset Management, TPG Private Equity, and **Morguard Corporation**. In fact, it was reported even Artis's CEO Armin Martens was working with partners on his own bid to take the company private.

Shares jumped nearly 3% on the news, with the stock closing at \$12.06 per share.

There could be some significant upside potential from here for brave investors who want to speculate on a deal happening. The firm reported a net asset value of \$15.56 per share as of December 31, and generally an acquirer will need to pay at least net asset value to make a deal happen. If Artis does get bought at net asset value, it would represent upside of 29% compared to Friday's closing price.

The bottom line

I wouldn't invest in Artis just based on the takeover speculation. Potential deals often fizzle out.

However, there's still a compelling argument for loading up on shares today. The stock trades at a [big discount](#) to net asset value. It's also cheap on a price-to-funds from operations perspective. And the portfolio now has a much better mix of assets than it did a couple of years ago.

Those are the reasons to buy Artis shares today. An acquisition is just a potentially very profitable bonus.

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Date

2025/09/08

Date Created

2020/03/02

Author

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