TFSA Investors: An 8% TSX Dividend Stock That Has 100% Upside

Description

H&R REIT (TSX:HR.UN) reported its first-quarter results yesterday. I predicted a couple of weeks ago that the diversified REIT would cut its cash distribution by 30-50%.

The TSX dividend stock announced a 50% cash distribution cut for its May cash distribution that's payable in June. Unfortunately, this is a step that the REIT must take in the current COVID-19 economic condition.

What were the Q1 results?

H&R REIT reported rentals from investment properties of $278 million, which were down 6% year over year. As well, its property operating income fell 9% to $141 million. The declines were primarily due to $1 billion of asset sales that have occurred in the past 15 months versus acquisitions of $207 million.

Excluding lease termination fees, same-asset property operating income increased 4%, which was predominantly due to growth in property operating income from its residential segment.

The REIT's funds from operations (FFO) of $136 million were marginally down by less than 1% year over year. Similarly, on a per-share basis, FFO was $0.45 against prior year's quarter of $0.46. This resulted in a payout ratio of 76.5% for Q1.

Notably, its net asset value (NAV) per unit declined 14% year over year to $22.26. So, the shares are trading at a 61% discount from the NAV.

In the near term, the NAV could be further pressured.

COVID-19 impacts

The commercial real estate industry, at large, has taken a major hit from the virus. Many of H&R REIT's retail properties had to be closed by government mandates, but its essential service tenants were allowed to continue to operate out of these properties.

As of mid-May, H&R REIT's April rent collection was 85%. And so far, May's rent collection is 80%. As you would have guessed, the most impacted segment is retail, for which it collected only half the rent in May. Within the retail segment, enclosed malls felt the most pain with only 30% of rent collection.

Thankful for H&R REIT's diversified business, it was able to collect 99%, 92%, and 90%, respectively, of rents from its office, residential, and industrial segments, which in total contributed 67% of its rent collection.

Liquidity, financial position, and debt

In light of COVID-19, H&R REIT was able to bolster liquidity in case it's needed. It was able to secure a new $425 million unsecured line of credit and a new $100 million secured mortgage on a previously unencumbered property.

For the remainder of this year, H&R REIT has about $116 million of maturing debt, which is very manageable. It has also postponed the start of the construction on development projects to reduce near-term capital commitment, which is a prudent move.

As of the end of Q1, the REIT's debt-to-assets ratio was 48%, while the weighted average interest rate of its debt was 3.6% with an average term to maturity of four years. These are all very reasonable.

The Foolish takeaway

COVID-19 pressures H&R REIT's near-term valuation. After the cash distribution cut, the REIT now offers an annualized payout of $0.69, which equates to a yield of just over 8% at $8.50 per share at writing.

After the COVID-19 crisis passes, the economy will normalize. At that time, H&R REIT's valuation should improve. It's a good income stock to sit on in your TFSA to wait for price appreciation. The stock is at least a double from current levels!

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