



Yield Alert: RioCan REIT (TSX:REI.UN) Now Pays a 10.5% Dividend

Description

RioCan REIT ([TSX:REI.UN](#)) has long been one of Canada's top REITs. It's easy to see why, too.

Led by CEO Ed Sunshine, the company's strategy is simple. It looks to own high-quality retail real estate in large centers, with a focus on the largest Canadian markets.

At one point the company expanded into the United States, acquiring a portfolio of property in the aftermath of the 2008-09 Great Recession, but that was sold with the proceeds being used to pay down debt.

As it stands today, the company owns 222 different properties spanning some 38 million square feet in space, including development properties, makes it one of Canada's largest retail REITs. In fact, RioCan has long been considered one of the nation's top REITs. It has become a staple in many portfolios.

With COVID-19 severely impacting the retail sector, it's only natural investors would start to worry about one of Canada's largest [retail landlords](#). Will RioCan survive this crisis? Will its succulent 10.5% dividend get cut?

Let's take a closer look.

A new world

Any investor who argues RioCan won't be impacted by COVID-19 is simply lying to themselves. It's already had a big impact on the company.

Most of RioCan's largest tenants are doing just fine, with grocery stores and pharmacies dominating that list. But there are also significant cracks in the portfolio, with other top tenants like movie theatres and gyms still looking like they're months away from reopening.

This weakness showed up in RioCan's April numbers. It collected 55% of April's rent without issue. An

additional 28% of April's rent will be paid over the next few months. But 17% of all rents were deferred. Will this ever be collected?

Then there's the impact COVID-19 will have on RioCan's development program. At this point, construction is still an essential service and development continues. But what about future projects?

After all, RioCan has dozens of development projects planned over the next decade or so, with a big emphasis on maximizing the value of its Toronto portfolio. If the economy continues to stagnate it'll be hard for RioCan to access funds for expansion.

It's obvious things aren't great for the company right now, and the share price reflects just that. As I type this, RioCan shares are below \$14 each, with a decline of approximately 50% over the last few months alone.

With shares at approximately 10 times trailing earnings, I think that's too cheap for such a high-quality company with such great assets.

What about the dividend?

RioCan shares are so beaten up the dividend yield now exceeds 10%. Does that make this a [risky payout](#)?

There are a few factors that contribute to the stability of this dividend. First, RioCan has a lot of balance sheet flexibility. It has \$1 billion in cash today and more than \$9 billion worth of unencumbered property. It also pays out less than 80% of normalized earnings back to investors as distributions.

CEO Ed Sonshine also came out recently and declared the dividend safe — investors have to like that vote of confidence.

Let's look at it another way. As it stands today, RioCan pays out \$38 million per month in dividends. The actual number is likely lower, as many investors choose to receive new shares instead of dividends. This means the company can maintain dividends for more than two years based on just the cash on hand alone — and that assumes it only breaks even on rent collection.

What are the chances this COVID-19 pandemic lasts another two years?

The bottom line on RioCan's dividend

It sure looks to me like RioCan will continue to pay its dividend. The company has plenty of liquidity, great long-term assets, and thus far, rent collection hasn't been bad.

With shares currently flirting with a multi-year low, it looks like a pretty good opportunity to finally add this high-quality real estate stock to your portfolio.

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