Big Canadian REIT Loses CFO During a Difficult Moment – Time to Sell?

Description

Just as Canadian real estate investment trusts (REITs) are working frantically to minimize risks and weather the COVID-19 financial storm, Quebec's largest diversified landlord, **Cominar REIT** (TSX:CUF.UN) announced in a press release on Monday last week that former Executive Vice-President and CFO Heather C. Kirk had resigned with immediately to pursue another opportunity.

Cominar is a diversified real estate investment trust and the largest commercial property owner in Quebec. Its portfolio consists of 315 office, retail and industrial properties totaling 35.9 million square feet of gross leasable area (GLA).

Does the sudden CFO departure matter?

The sharp brains driving financial and investment decisions are expected to be at their highest alert levels during crisis times. Management calmness and laser focus are required to avoid costly mistakes.

Bad things happen, and sometimes, they happen during the worst of times.

Cominar just lost a key financial decision-maker in May and could see some temporary disruption in its workflow and strategy implementation with this sudden key employee departure. Heather Kirk is a REIT aficionado who has been involved in the Canadian REIT financing and equity research activities for the past 18 years and was part of the team that led the trust's recent and successful strategic transformation.

The thing is, Cominar is currently taking a significant hit from the COVID-19 pandemic crisis. Management needed every sharp mind it could use to navigate business uncertainty during this tough financial period.

Cominar's challenges during COVID-19 crisis

The trust managed to collect just 71% of the total contracted rent for April. Its retail portfolio was hitvery badly by the pandemic and about 40% of April rent was collected from retail tenants.

Management expected that tenants would require rent deferral support for May. Tenants representing just over 40% of the retail GLA remained open for business by the first week of this month.

Provincial governments are easing their lockdown provisions and some retail stores are opening up. However, enclosed malls remain closed in Quebec, and Cominar derives 74% of its retail portfolio revenue from enclosed malls.

There's a chilling prospect of a 75% rent cut from small business tenants who qualify for the Canada Emergency Commercial Rent Assistance (CECRA) program. Management should be seized with such risks at this moment.

Then the CFO suddenly quits.

So what? Should you sell Cominar REIT units?

Cominar seems to have taken a hit from the coronavirus pandemic crisis during the second quarter of 2020, and the sudden CFO departure adds salt to a fresh wound.

Management quality is one important aspect of asset selection when investors choose which REIT to own for recurring high yield income and capital gains.

That said, investors could take solace in the fact that the outgoing CFO will remain available to ensure a proper transition. She's leaving the trust in the capable hands of Antoine Tronquoy, who's now the interim CFO. Mr. Tronquoy is a former CFO of another Canadian REIT who once worked at Morgan Stanley's real estate structured finance group — and has been instrumental in reshaping the Cominar's financial position. As well, the incumbent Vice President of Finance and Accounting Carl Pepin will support him.

I can't be confident how smooth the transition will be, however. The trust is currently headhunting and is uncertain how capable the new numbers person will be. However, a management quality discount is always a difficult number to compute. The CFO's departure alone isn't enough to trigger a sell recommendation.

Most noteworthy, the trust's office and industrial property portfolios took relatively smaller hits in April. They could still limp well through May and the retail one could resurge in June.

The trust's strong liquidity position in March, its improved occupancy rates at 94.7%, declining leverage, and lower average interest rates could make it survive the crisis.

I'm just concerned about the 100% AFFO payout rate exit the first quarter. It could balloon out of proportion and threaten the monthly distribution if the pandemic persistently ravages cash flows for longer.

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Date
2025/08/24
Date Created
2020/05/21
Author
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