Income Investors: Should You Buy RioCan (TSX:REI.UN) for the 10% Yield?

Description

The 2020 market crash hit **RioCan Real Estate Investment Trust** (TSX:REI.UN) particularly hard. The REIT owns shopping malls and continues to trade near March lows, even as the broader market recovers.

Income investors are wondering if the distribution is safe with the yield now at 10%.

Let's consider the outlook for the retail industry and see if RioCan deserves to be on your buy list.

Lockdown impact

Government lockdowns caused by the pandemic forced retail stores around the world to shut their doors for the past two months. The impact is brutal for retailers of all sizes, ranging from one-off independents to major international chains. Bankruptcy filings by leading brands continue to hit the news each week, and more are expected.

Landlords, including RioCan, have to navigate the challenge of opening the malls again while following social-distancing guidelines. Tenants with strong balance sheets can pay their rent. Those with no online presence or weaker liquidity positions need to negotiate payment terms.

Opportunity

Early indications in the United States where malls already opened suggest young shoppers are returning to their favourite clothing stores, despite the ongoing coronavirus risks. In addition, gyms are reporting up to 75% of members coming back to work out.

This is a good sign, as there have been concerns across the industry that people would simply stay home and keep shopping online or working out in their basements.

In Canada, June will be a critical month for the industry, as more sectors of the retail and service industry open up. Government aid programs targeted at helping commercial tenants and large companies get through the crisis should reduce the number of retailers that disappear, but analysts say there will still be businesses of all sizes that won't survive.

In April, RioCan initially collected 55% of its rent. The company automatically gave deferrals to the small tenants who represent 15% of total clients. A program is being put in place that would see landlords cover 25%, the tenants pay 25% and the government pay 50% for April, May, and June.

Overall, the company's CEO said in a May 12th interview that RioCan anticipates collecting 65-70% of total rent for April and May. When you add the 15% deferrals, he said they will likely land in the 80-85% of available rent for the first two full months of the crisis.

Strength

RioCan has a strong balance sheet and can access funds at very low rates.

The company has also moved to diversify the revenue stream in recent years with the mixed-use property developments that combine residential and retail space.

The client portfolio for the malls is diversified. No single tenant accounts for more than 5% of revenue. Several of the top customers are classified as providers of essential products and services.

Overall, the company should be in a solid position to ride out the recession.

Should you buy?

RioCan trades at $14.30. It hit a March low of $12.45 and was above $27 in February. The payout appears safe, assuming clients reopen successfully over the coming months. Risks remain, but the upside potential likely offsets the downside risk at this price.

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