1 High Yield Canadian REIT to Watch in July

Description

The Canadian economy is finally opening up as humanity suffers through the COVID-19 pandemic. It's time for income investors to take stock of how the pandemic affected the financial health of their investments — and there's no better way to do so that to analyze the latest set of earnings results.

RioCan Real Estate Investment Trust (TSX:REI.UN) is set to release its second-quarter 2020 results on July 29, and I'm looking forward to the earnings call.

Why the interest in RioCan REIT earnings?

RioCan is one of the largest Canadian real estate investment trusts (REITs). It owns and manages a portfolio of over 220 retail-focused, but increasingly mixed-use properties with 38.4million square feet in leasable area.

As previously highlighted, RioCan REIT was one of the worst-hit Canadian landlords during the health crisis. The trust faced significant challenges in rent collections from its retail-oriented portfolio.

The trust collected 66% of expected rent in April. This excluded about $15 million, or 17% of the total rent due which had been deferred. Overall portfolio gross rent collections for April stood at just 55% by April 30 this year. More deferrals and rent concessions could have been offered in May.

Such scenarios could mean potential bad-debt provisions, although the trust enjoys the security of tight lease contracts and rent deposits.

A confident management

Management was very confident in May that the trust would easily survive the COVID-19 challenge. Trustees supported this position by maintaining monthly distributions for May and June.

Maintaining distributions during a period of poor rent collections was a strong show of financial strength and flexibility. However, the REIT's units remain heavily beaten down on the **TSX,** with a negative 43% year-to-date return. The annualized current yield on the units remains high, at over 9.6% at the time of writing.

Investors are skeptical. They want to see the numbers first before reviewing their heavy 42% discount on the trust's equity units. As the trust releases financial results in July, they want a word on rent concessions and deferrals that affect near-term cash flows.

Most noteworthy, investors would like to know whether rent collections improved as the economy started opening up in June and into July. If tenants paid more rent in July, the portfolio could get out of the woods early enough for the trust's valuation to quickly recover over the next 12 months.

A full recovery on RioCan's unit price to pre-pandemic levels could mean a strong 84% return in capital gains!

Some portfolio attributes help RioCan survive the storm

RioCan's had $1 billion in liquidity on March 31 this year. The trust had over $9.2 billion in unencumbered assets (properties without any debt claims on them). Leverage was relatively low with a debt-to-assets ratio of 43% exit the first quarter. Management therefore had ample capacity to raise liquidity from new mortgage loans if this became necessary.

Further, a respectable 96.3% in-place occupancy rate heading into the pandemic, and 7.3 years in weighted average remaining lease terms were strong points adding to its portfolio resilience. However, I'm more concerned about occupancy rates on June 30. Lease renewals and cancellations during the pandemic will affect near-term economic performance for the trust's portfolio.

The trust's mixed-use assets should've helped it weather the storm. Residential units and open-air spaces continued to pay rents. Although a low exposure to enclosed malls didn't help cushion April rent collections, the trust might have enjoyed better rent collection success during phased re-openings.

We'll know soon how RioCan fared during a tough second quarter of 2020.

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