
# This 12% Dividend Stock Popped 13% Today: Still a Great Bargain

## Description

**Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY) is absolutely cheap. It's so cheap that its parent company and manager **Brookfield Asset Management** and its affiliates are buying back about US$890 million worth of shares at US$12.00 per unit, a 17.6% premium to the market close of July 1, from public unitholders.



This is nearly nine times the US$101 million worth of units that Brookfield Property already repurchased in Q1 at US$13.07 per unit.

After the substantial issuer bid completes, BAM and its affiliates will own roughly 63% of Brookfield Property.

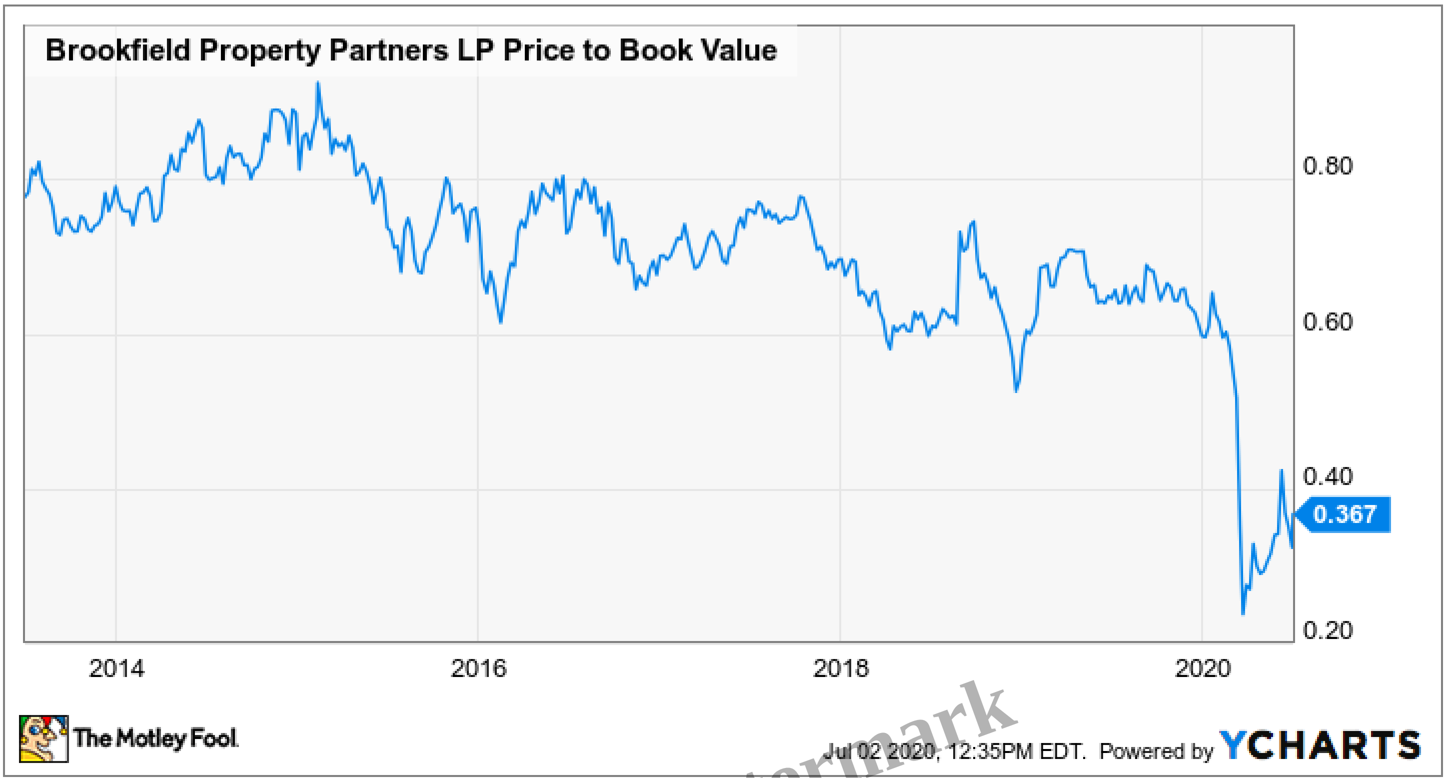
Why is BAM not buying the shares directly from the market? It seems to be a consideration for both shareholders and the company. BPY CEO Brian Kingston stated in today's press release, "This offer will provide unitholders who desire liquidity an opportunity to sell their stock at a premium to the market price, while preserving BPY's liquidity."

The market still doesn't entirely trust BPY. And this shows in the stock's trading action. Despite popping 13% from the buyback news on the TSX today, BPY stock still trades at a 6% discount to the US$12 offer price.

## The dividend stock is still very cheap

The diversified real estate stock is still very cheap to what it's worth. Its Q1 book value was US$28.52 per unit, which was down US$1.20 per unit or 4% from the end of 2019. The book value doesn't change substantially from one year to the next.

In stark contrast, the stock has declined by roughly 38% year to date. This illustrates the negativity surrounding the COVID-19 pandemic impacts.




*BPY Price to Book Value data by YCharts. BPY's all-time price-to-book history.*



The high-yield stock only trades at about 40% of its book value. Even assuming a target price to book of 60%, the stock is still undervalued by approximately 33%.

As a result of the depressed stock price, BPY stock yields close to 12%.

## Is the big dividend sustainable?

What worries the market is likely the company's roughly 40% funds from operations exposure to retail properties in a normal market.

Brookfield Property's core retail portfolio saw fair value losses of US$295 million in Q1, whereas its core office portfolio was holding up much better with fair value losses of US$14 million. The fair value losses account for a percentage of rent that isn't expected to be collected due to store closures from the pandemic.

In Q1, BPY's payout ratio was 100%. While its trailing 12-month period had a payout ratio of 86%, which investors can view as the normalized payout ratio.

The company has sufficient liquidity to maintain the big dividend without having to borrow. Specifically, it has liquidity of US$7.2 billion, including US$1.8 billion of cash on hand. Last year, it paid less than US$1.3 billion in dividends.

However, whether management will maintain the dividend through the pandemic-triggered recession depends on the best use of capital.

For example, the company is using some of its capital to repurchase shares. This means there will be less capital for other purposes, including paying dividends and making acquisitions.

If BPY cuts its cash distribution, I believe it will be a partial cut of 30-50%, equating to an effective yield of 5.9%-8.3% from current levels, which is still an attractive income investment.

In any case, it's more prudent for investors to assume there will be such a dividend cut and consider the stock as a total-return investment rather than solely for income.

## The Foolish takeaway

Management has the liquidity to support BPY's 12% yield. However, in today's stressful economic environment, there will be greater competition for BPY's capital.

Management will make decisions based on what it thinks is best for long-term shareholders. Since management owns a significant stake in the company, its interests are aligned with that of shareholders.



Whether or not Brookfield Property cuts its dividend, it will still deliver attractive returns over the next three to five years. It's substantially undervalued and provides nice income.

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