Income Investors: Why This 5.9% Yielding Retail REIT Is a Solid Bet Right Now

Description

Commercial real estate is going to be in for a rough ride this year. As companies discover they don't want every employee to come into office daily, they will start reducing the amount of space they rent. Companies like Shopify have already declared that digital by default move will stay even when offices reopen and business returns to normal.

However, some REITs that house essential businesses like groceries and pharmacies and will experience a limited downside in a tumultuous market. **Choice Properties REIT** (TSX:CHP.UN) is one of Canada's top REITs and is home to one of the country's largest grocers: **Loblaw**.

Earlier this month, I had written about Loblaw and why it needs to be part of an investor's portfolio. It only makes logical sense that one should own Loblaw's landlord too.

Choice owns and operates a portfolio comprising 724 properties totaling 65.6 million square feet. Its strategic alliance with Loblaw is a key competitive advantage that takes care of long-term growth plans.

Choice recently reported its results for the second quarter of 2020. The company reported a net loss of $95.8 million compared to income of $238.3 million in the same period in 2019. This was primarily due to a writedown in the value of certain investment properties. However, income for the six months of the year ended June 30, 2020, was $236.9 million.

Steady rental income

Rent collection for the second quarter, one of the most painful ones for business in living memory, was approximately 89%, which is very good in the sector it operates in. For the months of July, the company has already collected 94% of the rent. The company's diversified portfolio of retail, industrial, and office properties had an occupancy rate of almost 97% and is leased to high-quality tenants across Canada.

The pandemic has affected retail tenants like those in the hospitality, fitness, and fashion sectors. These segments are a small portion of Choice's portfolio. In March, the company agreed on rent deferrals for 60 days for small businesses from April 1, 2020.

Apart from this, Choice is also a participant in the Canada Emergency Commercial Rent Assistance (CECRA) program that provides 75% rent abatement for qualifying small businesses for four months. The company has made a provision of $14.6 million for amounts that are past their due dates.

Choice issued unsecured debentures of $1 billion that were used to meet all unsecured debt maturities until the third quarter of 2021. The company also has $1.5 billion available under its credit facility.

Strong dividend game

Choice declared a monthly dividend of $0.06 per share despite the net loss in Q2. This shows that the company has confidence in its ability to generate cash.

For the three months ended June 30, 2020, funds from operations were $140.6 million and the numbers for six months were $311.3 million. The company sports a forward yield of 5.9%.

The stock is a good one to own as its rental revenues won't stop irrespective of a pandemic or a recession, and its dividend play makes up for the smaller upside in its stock price.

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Date
2025/06/30
Date Created
2020/07/25

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