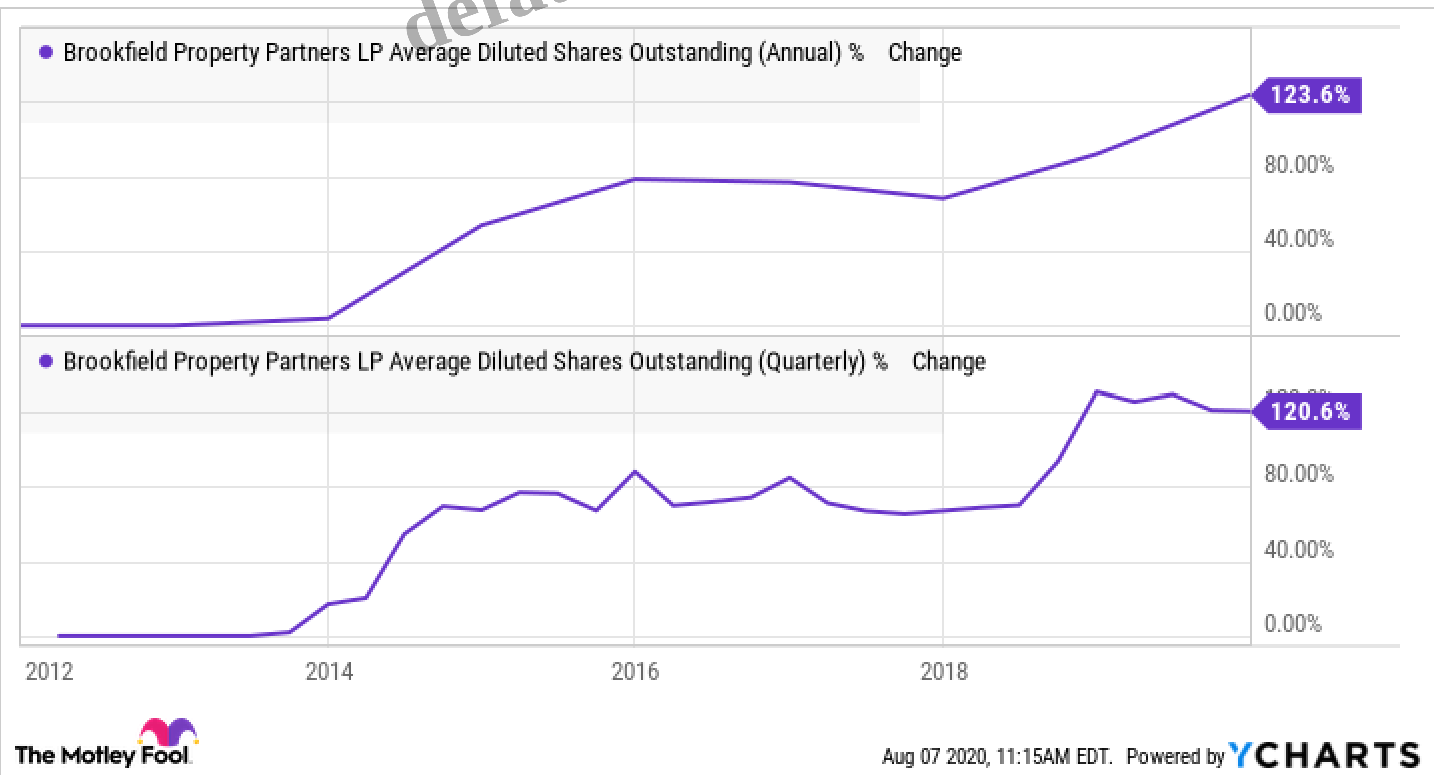
11% Dividend Stock Buying Back $1,000,000,000 Worth of Shares!

Description

Often, companies buy back shares to reduce their share count and boost their earnings. However, this act destroys shareholder value if the companies perform the buybacks when the shares are expensive. On the contrary, this will create shareholder value if the companies buy back discounted shares.

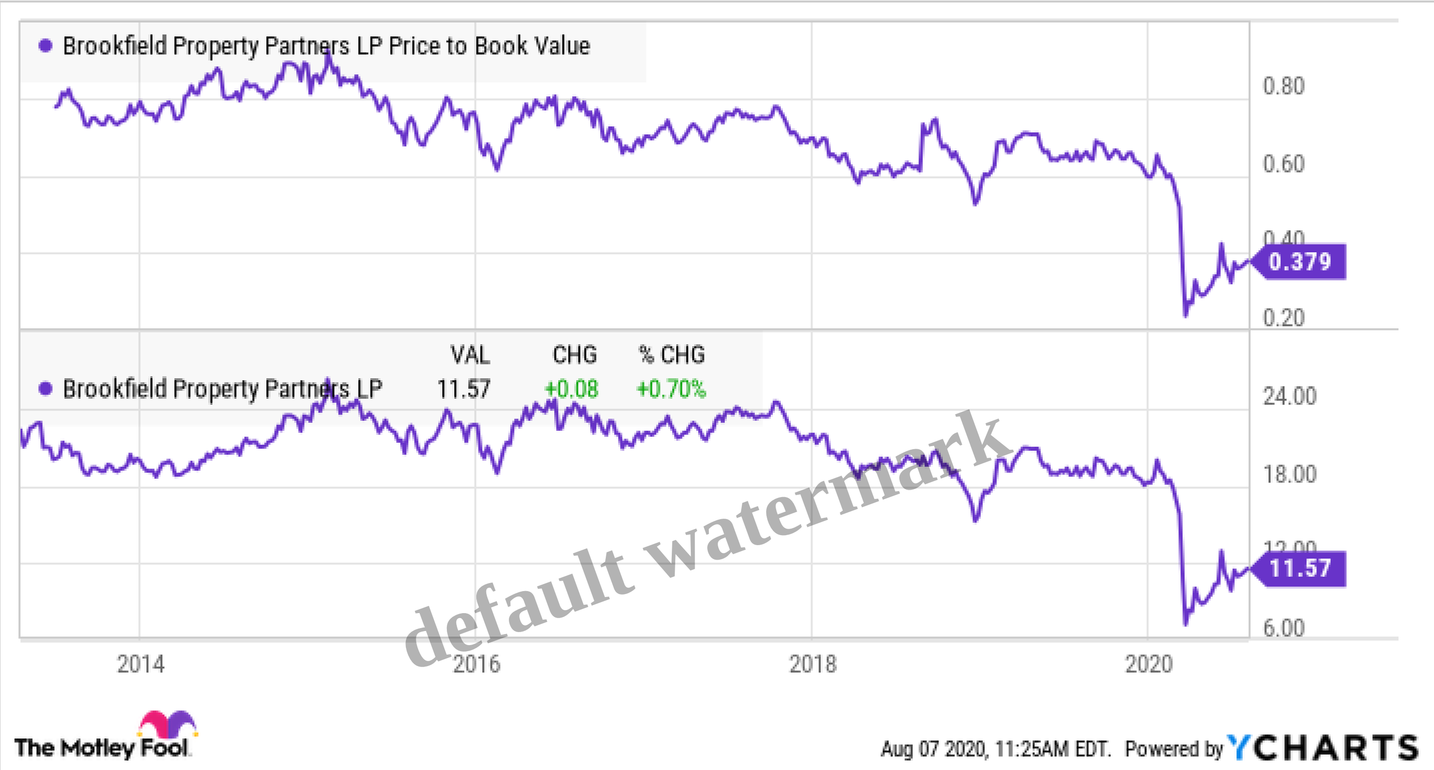
Using **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY) as an example below, we see that it has increased its outstanding shares over time despite buying back some in between.



BPY Average Diluted Shares Outstanding (Annual) data by YCharts.

In the first half of the year (H1), through its normal course issuer bid program, Brookfield Property bought back close to 10.4 million shares, which totalled more than US$123.6 million, at US$11.90 per unit.

This should create shareholder value. Not only are the shares trading at a big discount to the stock's book value, but the company will also be able to save tonnes of money from the dividends that were going to be paid. The close to 10.4 million shares that were bought back would save over US$13.8 million in dividends over the next 12 months.



Data by YCharts. Chart displaying price to book value and stock price of BPY.

Brookfield Property is planning to buy back an additional 74,166,670 shares, which totals US$890 million, at US$12 per unit through [a substantial issuer bid] from public unitholders. This would save an additional US$98.6 million in dividends over the next year.

Combining the H1 and the substantial buybacks, Brookfield Property would buy back a total of US$1.01 billion worth of shares at US$11.99. And it would save about US$112.5 million in dividends over the next 12 months.

Notably, the company can push out shares again to raise capital when the stock trades at more normalized levels, say at 60% of its book value. This implies a price appreciation of 35% from the US$12-per-unit buyback level.

The ideal scenario is that the company is buying back shares at a big discount, saving dividends, and can raise more capital when the stock trades at closer to its intrinsic value and it does equity offerings down the road.

Investors today can buy the stock at a small discount of about 3.5% from the market as the shares trade at US$11.57 per unit. This implies an upside of about 40% back to normalized levels.

Unless a shareholder needs the money now, it's incomprehensible why they would sell BPY shares when they're cheap and the company, which is well known for its value investing prowess, is buying back so many shares.

The Foolish takeaway

Due to COVID-19 related economic shutdowns, Brookfield Property stock has been dragged down by its retail property exposure. Assuming that BPY's core retail portfolio is worth $0, the stock's net asset value (NAV) per unit is about US$14. So, it trades at a meaningful discount of 18% from its NAV.

No matter which way we look at Brookfield Property, the stock trades at a discount. Therefore, there's sure price appreciation for an investment over the next five years. Moreover, it also provides a yield of nearly 11.5% that also adds to returns.

That said, the year-to-date payout ratio is 131%. So if the COVID-19 situation drags on longer than expected, there's a possibility of a dividend cut.

Importantly, the company's liquidity is strong. It ended the second quarter with US$6 billion of liquidity, including US$1.5 billion of cash on hand. In comparison, it paid dividends of about US$1.3 billion over the trailing 12 months.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/22
Date Created
2020/08/09
Author
kayng