Retire Rich on a Cheap Value Stock for Billionaires

Description

First Capital (TSX:FCR) is a large owner, developer, and operator of necessity-based real estate located in Canada's most densely populated urban centres. The company owns interests in 166 properties, totaling approximately 25.5 million square feet of gross leasable area. First Capital's primary strategy is the creation of value over the long term by generating sustainable growth in cash flow and capital appreciation of the company's urban portfolio.

Enticing valuation

The company's stock is reasonably priced with a price-to-book ratio of 0.82, dividend yield of 2.77%, and market capitalization of $3.47 billion. Debt is very sparingly used at First Capital, as evidenced by a debt-to-equity ratio of just 1.13. The company has excellent performance metrics with an operating margin of 55.45% and a return on equity of 0.17%.

Strategic initiatives

To achieve the company's strategic objectives, management undertakes selective development, redevelopment and repositioning activities on First Capital's properties, including land use intensification. The company has been very focused and disciplined in only acquiring well-located properties to create super-urban neighbourhoods. These properties have been acquired in close proximity to existing properties in the company's target urban markets.

The company has raised capital, when needed, to fund future growth through select dispositions and driven rent growth by proactively managing a large portfolio. Management has increased efficiency and productivity of operations and maintained financial strength and flexibility to support a competitive cost of capital.

Tenant diversification

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Approximately 46%, 23%, 22%, and 9% of the company's gross leasable area is located in the provinces of Ontario, Quebec, Alberta, and British Columbia, respectively. The company's top 10 tenants represent about 35% of the company's gross rent occupied. First Capital's largest tenant accounts for about 10% of the company's gross rent.

Opportunistic capital allocation

First Capital has done well to seize on opportunities to acquire, expand and selectively develop properties that have offered an acceptable risk-adjusted rates of return. The company has also been able to successfully integrate acquisitions into existing operations. Properties acquired have succeeded in achieving the occupancy and rental rates projected at the time of the acquisition decision.

Future outlook

Residential property development and redevelopment represents a huge opportunity for the company. Development risks associated with such projects are limited due to the company's solid experience in this area. In addition, First Capital undertakes strategic property dispositions from time to time in order to recycle the company's capital and maintain an optimal portfolio composition.

Effective risk mitigation

The company has done well to mitigate unexpected costs and liabilities related to dispositions. First Capital has made several acquisitions in the recent past and has successfully integrated the operations, personnel, and accounting and information systems of the acquired business. Key personnel from the acquired business have been trained, retained, and motivated.

The company's relationships with current tenants and employees are the best they have ever been. This should serve First Capital well and lead to a higher stock price. Long-term investors are likely to do very well. Management recognizes the incredible opportunity to expand into residential property development and redevelopment, which should lead to a higher valuation.

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Date
2025/09/27
Date Created
2021/02/26
Author
nikhilwaterloo

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