RioCan Stock: Should You Buy This REIT for its 4.7% Yield?

Description

The COVID-19 pandemic decimated several sectors in the past year, including retail, airlines, hospitality, energy, and tourism. This included retail-focused real estate investment trusts (REITs) such as **RioCan** (TSX:REI.UN), which lost close to 40% in market value in 2020. However, the rollout of vaccines and investor optimism have helped RioCan and peers to stage a comeback this year. Since the start of 2021, RioCan stock is up 22% and has surged 39% in the last six months.

Does this recent uptick suggest it is time to bet on one of the largest REITs in Canada?

RioCan has a wide portfolio of properties

RioCan has a market cap of $6.52 billion and an enterprise value of $13.3 billion. This REIT owns, operates, and develops retail-focused mixed-use properties located in high-density, transit-oriented regions. Its portfolio consists of 223 properties that include 14 development properties with a net leasable area of 38.3 million square feet.

The REIT aims to deliver unitholders with stable and reliable cash distributions that should increase over the long term. RioCan has managed to accumulate a robust portfolio of income-generating properties with significant redevelopment potential. Several of these properties are located on or near existing government-approved transit lines.

The company is focused on optimizing the value of these properties via redevelopment. It is also diversifying into residential real estate and is refining its portfolio to prioritize high-growth, high-population hubs in major Canadian markets.

Recent Q4 results

In the December quarter, RioCan reported a net income of $65.6 million compared to a net income of $150.8 million in the prior-year period. Its funds from operations (or FFO) also fell from $146 million to $124 million in this period. Its FFO was down $0.02 per share on a sequential basis. After accounting for an inventory gain of $11.4 million in Q3, RioCan's FFO per unit was up due to lower pandemic-related provision as well as stable property performance.

In 2020, RioCan reported an FFO per unit of $1.60, which was in line with management guidance. It declined by $0.27 per unit year over year due to a pandemic-related provision amounting to $42.5 million as well as $20.8 million in lower residential inventory gains.

RioCan wrote off $526.8 million of the fair value of investment properties in 2020 due to COVID-19, which meant its net loss for the year stood at $64.8 million compared to a net income of $775.8 million in 2019.

The company's management said the second wave of COVID-19 infections meant the federal government had to reinstate and tighten restrictive measures, including the closure of non-essential businesses in certain regions.

As of December 2020, 25% of the REITs tenants were closed. Comparatively, almost all of its tenants were operating in Q3 of 2020.

A decrease in dividend payout

While the vaccine rollout is gaining pace in Canada and instilled optimism in the market, there is a lot of uncertainty surrounding the duration of the pandemic. The governments in Ontario and Quebec have introduced extensive store closures and restrictive measures in the last few weeks.

This has led to RioCan slashing its monthly dividend payout to $0.08 per unit this year compared to $0.12 in 2020. While the dividend rollback was necessary, investors should also note that RioCan collected 94.2% of its gross rents in Q4, which was higher than its cash-collection ratio in Q3. Despite the lower payout, RioCan stock sports an attractive forward yield of 4.7% right now.

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