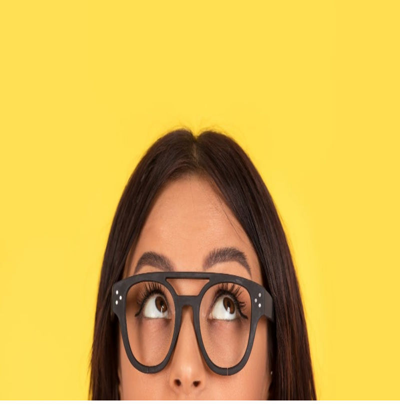

2 Troubled Stocks to Buy if You Believe in Miracles

Description

A pair of real estate investment trusts (REITs) were the top choices of income investors before the 2020 health crisis: **RioCan** (TSX:REI.UN) and **American Hotel Income Properties** (TSX:HOT.UN), or AHIP. Their respective rental businesses suffered a great deal due to lockdowns and social-distancing directives.

RioCan had to slash dividends to preserve cash, while AHIP stopped payments altogether due to severe business reversals. While the real estate stocks are in positive territory thus far in 2021, both aren't out of trouble yet. It might take a miracle to see them regain lost ground and become attractive investments again.

Forward-thinking REIT

Between the two, RioCan's prospects to emerge stronger are better. According to its new CEO, Jonathan Gitlin, they see a stronger leasing environment in 2021. He said, "Well-capitalized, forward-thinking companies are seizing on the opportunity to lease well-located space."

The challenging environment forced its former CEO Ed Sonshine to reduce RioCan's dividend payments by 33% in December 2020. From 7.99%, the current dividend yield is still a decent 4.35%. Meanwhile, RioCan trades at $22.04 per share, or 34% higher than its year-end 2020 price.

In Q1 2021 (quarter ended March 31, 2021), RioCan's net income increased 4% to $106.7 million versus Q1 2020. As of May 3, 2021, the total cash or rent collected was 93.9%. However, about 21.2% of its tenant composition remains potentially vulnerable. Most of these tenants operate gyms, movie theatres, and sit-down restaurants.

The bright spots for RioCan are the increase in committed occupancy to 96% and the 1.1 million square feet of new and renewed leases. Management banks on the widespread vaccine distribution for now. The $7 billion REIT is well positioned to capitalize on pent-up consumer activity that should benefit the tenants.

Severe business disruption

The COVID-19 pandemic's impact was severe on the hospitality and hotel industry. AHIP had no choice but to suspend dividend payments immediately until economic conditions improve. Besides the halt of payouts to shareholders, the REIT had to implement drastic cost-saving measures to preserve cash.

In the full year 2020, AHIP's revenue and net operating income (NOI) fell 47.8% and 58.3% compared to the prior year. As of result of the significant drop in NOI, AHIP's net loss ballooned to $66.4 million from the $7 million net loss in 2019. The occupancy rate likewise dropped from 74.5% to 51.3%. Its current share price is down to $4.33.

This $340.13 million REIT owns and operates 78 premium-branded, select-service hotels in the secondary metropolitan markets in the United States. Its licence agreements or brand affiliations are with Marriott, Hilton, IHG, and Choice Hotels. In Q1 2021 (quarter ended March 31, 2021), AHIP remains in dire straits, although the occupancy rate improved each month during the quarter.

Total revenues and NOI dropped 24.5% and 16.1% versus Q1 2020. Its net loss was $13.97 million. At the close of the quarter, AHIP's unrestricted and restricted cash balances were $30.1 million and $31.1 million. It has an available revolver capacity of about $29.5 million.

Struggling REITs

RioCan and AHIP were excellent dividend plays pre-pandemic. In late January 2020, the retail and hotel REIT traded above $24 and $7 per share. Sadly, both stocks continue to struggle and have yet to recover the losses. Industrial REITs are the better, more profitable choices in the real estate sector today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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