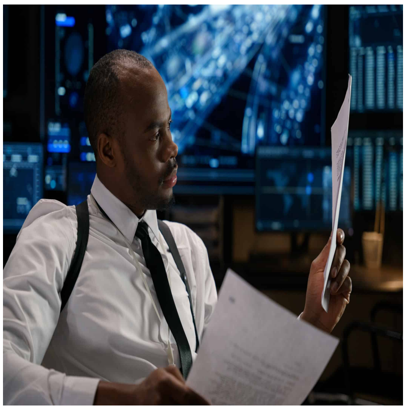

RioCan REIT Posts Strong Q1 Earnings: Is the Stock Now Worth a Buy?

Description

Earnings season is now in full swing, and many factors are impacting the stock market, creating a lot of information for investors to follow. With numerous stocks reporting earnings, it can be easy to miss some excellent performances. And one stock that you'll certainly want to check out after posting strong first-quarter earnings is **RioCan REIT** (TSX:REI.UN).

RioCan REIT is a predominantly retail REIT, although it does own several mixed-use properties. Retail REITs have been some of the hardest hit by the pandemic and, therefore, some of the poorest performers over the last couple of years.

However, RioCan's earnings show that the stock is on the right track and continues to create value for investors. So, how well did the REIT do?

RioCan REIT posts solid first-quarter earnings

RioCan's earnings show that the real estate stock has been performing well lately. Its funds from operations (FFO) per unit of $0.42 for the first quarter was $0.09 per unit, or 27% higher than the same quarter last year. That's a significant beat.

And while the trust didn't earn certain pandemic-related benefits that it did a year ago, which did slightly impact its earnings negatively, occupancy gains, rent growth and lower pandemic-related provisions drove strong same property net operating income (NOI) growth of 4.1% and accounted for a significant portion of the increase in FFO.

In addition, RioCan earned higher NOI from properties that were previously under development as well as higher fee income. Plus, on top of these impressive results, RioCan reiterated its full-year 2022 guidance of 5-7% FFO per unit growth.

In this environment, the fact that RioCan has recovered from the pandemic and is now operating well is crucial. Investors are looking for high-quality businesses to rely on, especially ones that offer attractive dividend yields.

So, with RioCan's recent performance, and its potential to continue growing its operations and finding value for shareholders, it certainly looks like it's worth an investment today.

The stock is reasonably valued, plus it offers a yield of roughly 4.75%. And if you're wondering how safe that distribution is, RioCan's payout ratio of FFO was just 57.3% in the first quarter. That's right in line with its target range of 55-65%.

Where can RioCan go from here?

Over the last few years, RioCan has been focusing its portfolio on Canada's big six major markets as well as investing in developments to improve the REIT's growth potential. This has paid off already, helping the REIT to focus on fewer markets but also markets that offer natural population growth for its high-quality, necessity-based retail properties.

In 2017, only 76% of its revenue came from the big six markets. Today, that's just under 92% of its rents. So, right now, RioCan is in much better shape, and it continues to offer attractive growth potential, especially in the current environment.

RioCan announced during its earnings that going forward, it will continue to advance its development program of mixed-use communities, which should continue to deliver FFO growth in the near term. Plus, RioCan's projects are well insulated from inflation, as the majority of its costs are already secured with fixed-priced contracts.

Therefore, with the stock trading well off its 52-week high and offering an attractive yield, it certainly looks like an excellent investment to make in this environment.

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