



## Passive Income: Should You Buy RioCan (TSX:REI.UN) Now?

### Description

**RioCan** ([TSX:REI.UN](#)) is down significantly from the 2022 high. Investors who missed the big rally off the 2020 crash are now wondering if the retail REIT giant is now [undervalued](#) and a good stock to buy for an income portfolio.

### RioCan overview

RioCan is one of Canada's largest REITs with a current [market capitalization](#) of \$6.8 billion. The pandemic hit this REIT particularly hard due to its large portfolio of shopping malls. Fortunately, government aid for businesses helped many of RioCan's tenants make their payments, and RioCan worked out agreements with others to help get through the lockdowns.

Now that malls, restaurants, gyms, and cinemas are open again RioCan is seeing revenue numbers bounce back, and demand for retail space is improving.

Looking ahead, there should be good news for investors in the next few years.

RioCan shifted its strategy before the pandemic. The company sold off a number of properties located in smaller cities and decided to focus its investments on six core Canadian markets. The development pipeline includes mixed-use properties where RioCan is building residential rental units and retail on strategic locations along key public transit routes. The plan is a big bet on demand for high-quality apartments located in city centres and close to main transit lines. Most of the developments are in the GTA, but RioCan is also investing and expanding in Montreal, Ottawa, Calgary, Edmonton, and Vancouver.

### RioCan Q1 2022 earnings

Net income for Q1 2022 came in at \$160.1 million, up \$53.3 million compared to the same period last year. This includes an increased fair value gain of \$26.6 million.

Funds from operations (FFO) per unit came in at \$0.42 compared to \$0.33 last year. Management said the company is on track to meet its 2022 target of 5-7% FFO growth.

The REIT reported a FFO payout ratio of 57.3%. This is within RioCan's targeted FFO payout range of 55-65%. The metric is important for income investors who want to be sure the current distribution is safe and are trying to determine how much distribution growth might be on the way.

RioCan's retail properties remain in high demand. The company reported a committed occupancy rate of 97% for Q1 compared to 95.8% in the first three months of last year. New and renewed leases came in at 1.1 million square feet in the quarter.

The residential buildings being built, acquired, or already completed are being marketed under the RioCan Living brand. As of May 9, 2022, the company had more than 1,800 purpose-built completed residential units across eight buildings located in Toronto, Ottawa, Calgary, and Montreal.

The residential development pipeline includes \$16.8 million square feet of permitted projects with 2.2 million already under development.

## Dividends

RioCan cut its monthly distribution from \$0.12 to \$0.08 during the pandemic after repeatedly telling investors the payout would be safe. This upset income investors who had relied on the distribution for years. RioCan will have to work hard to regain investor trust. The board raised the payout earlier this year to \$0.085 per unit. Based on the low payout ratio and the strong development pipeline investors might see another half-cent increase by the end of 2022.

## Should you buy RioCan Now?

RioCan trades for \$22.25 at the time of writing. That's still up considerably from the 2020 low around \$14, but down from the 2022 high of \$26. The current annualized yield is about 4.6%, so you get paid well to wait for revenue to increase with the addition of new properties. A steady pace of distribution increases should follow, although rising borrowing costs could cut into the cash available for distributions in the next few years.

I wouldn't back up the truck, but RioCan looks more attractive at this level than it did two months ago. If you are looking for a REIT to add to your portfolio, RioCan deserves to be on your radar.

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