



Choice Properties REIT (CHP.UN.TO)

Updated July 18th, 2019 by Noah Horwood

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	6.5%	Volatility Percentile:	5.0%
Fair Value Price:	\$13	5 Year Growth Estimate:	2.7%	Momentum Percentile:	71.0%
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Growth Percentile:	12.8%
Dividend Yield:	5.4%	5 Year Price Target	\$15	Valuation Percentile:	48.5%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	38.4%

Overview & Current Events

Choice Properties Real Estate Investment Trust invests in commercial real estate properties across Canada. The company has a high-quality real estate portfolio of 753 properties which makes up roughly 66.8 million square feet of gross leasable area (GLA). Throughout 2018, Choice Properties acquired 209 properties which makes up 22.7 million square feet of GLA, this process included acquisition of Canadian Real Estate Investment Trust for \$3.7 billion. Choice Properties' portfolio is made up of 599 retail properties, 113 industrial properties, 16 office complexes, 3 multi-family residential buildings and 22 development properties. Over 500 of Choice Properties' investments are to their largest tenant, Canada's largest retailer, Loblaw. This \$7.3 billion market capitalization company is listed on the Toronto Stock Exchange under the trading symbol 'CHP-UN', or in the United States on the over the counter market under the trading symbol 'PPRQF'. All values for this report will be in Choice Properties' home currency, the Canadian Dollar (CAD).

On July 17th, 2019 Choice Properties released Q2 results for the period ending June 30th, 2019 and full year results for period ending December 31st, 2019 were reported on February 13th, 2019. Funds from operations per share (FFO/S) for the quarter totaled \$170.2 million (\$0.25 per share) against \$156.6 million (\$0.27 per share) in Q1 of 2018. For the year FFO/S totaled \$604 million (\$1.03) against \$443 million (\$1.07) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	N/A	N/A	N/A	N/A	\$0.44	\$0.91	\$0.97	\$1.00	\$1.07	\$1.03	\$1.06	\$1.21
DPS	N/A	N/A	N/A	N/A	\$0.33	\$0.65	\$0.65	\$0.69	\$0.72	\$0.74	\$0.76	\$0.87
Shares	N/A	N/A	N/A	N/A	371.7	395.3	408.1	410.6	413.4	668.2	672.5	690.1

For Choice Properties' primary growth metric, we used funds from operations per share (FFO/S) instead of the typical EPS since FFO/S gives a much more accurate picture of a REITs performance. Choice Properties only has reportable operations starting in the third quarter of 2013, which explains why the company's 2013 values are significantly lower. In the last six years, Choice Properties has grown their FFO/S at a rate of 3.2 percentage points annually. For our future calculations we used their historic growth rate of 2.7% going forward. We are expecting a 2024 FFO/S of \$1.21, which drives a 5 year price target of \$14.64. To achieve our projected growth rate the company will need to manage their new growth from recent acquisitions effectively and continue to grow their portfolio.

Choice Properties has been increasing their dividend steadily since 2015. The company kept the dividend at \$0.65 annually for their first three years of operations. The company's average annual dividend growth rate for the last three years has been a respectable 3.9%. Going forward, we expect Choice Properties to increase their dividend with the growth of the company, which drives a 2024 DPS value of \$0.87. Note the company's amount of share outstanding increased juristically from 2017-2018 due to funding acquisitions.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	N/A	N/A	N/A	N/A	N/A	11.5	12.2	13.5	12.5	11.2	13.2	12.2
Avg. Yld.	N/A	N/A	N/A	N/A	6.2%	6.2%	5.5%	5.3%	5.5%	6.4%	5.4%	5.8%

Choice Properties' average price to funds from operations ratio (P/FFO) has remained around their historic average of 12.2 for much of their six reportable years. Comparing current average P/FFO ratios to their historic average Choice Properties is slightly overvalued at current prices. We expect valuation multiple reductions to reduce total returns by 1.6 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	75%	71%	67%	69%	67%	72%	70%	61%

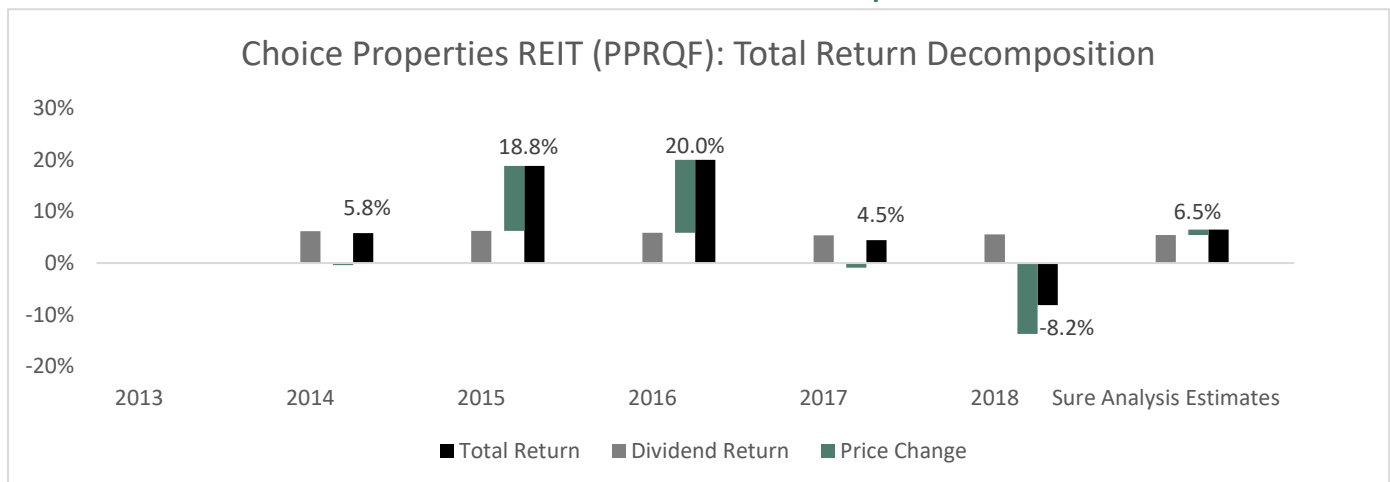
Choice Properties' portfolio has a majority of their income coming from their largest tenant, Loblaw. Loblaw makes up 71% of Choice Properties' total portfolio and 89% of the company's retail portfolio. Having such a large amount of their portfolio leased to Loblaw makes the company rather dependent on Loblaw's continued operations. One benefit of their strategic alliance with Loblaw is long-term leases, which gives some certainty for future earnings.

Choice Properties has not been around for a recessionary period, so to predict how the company would perform in a recession we observed similar companies performance in a recession. The most similar company we found to Choice Properties is Crombie Real Estate (CRR-U), which also operates a REIT out of Canada with a portfolio designed like Choice Properties' portfolio. During the last recession, The Great Recession in 2008-2009, Crombie Real Estate's FFO/S decreased by nearly 19%, which is relatively solid performance all things considered. Overall we view Choice Properties' dividend as likely safe during a recession thanks in part to its conservative payout ratio for a REIT.

Final Thoughts & Recommendation

Choice Properties stock has performed well in the last 12 months, increasing over 10% in that time. Overall, we expect total returns of 6.5% annually going forward, mainly driven by their 5.4% annual yield on dividends, followed by a 2.7% improvement coming from growth and a reduction on total returns of 1.6% coming from our valuation analysis. As a result, we rate Choice Properties as a hold at current prices.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue					319	683	743	784	831	1148
Gross Profit					239	510	551	583	621	834
Gross Margin					75.0%	74.7%	74.1%	74.4%	74.8%	72.6%
SG&A Exp.					12	24	6	39	35	50
D&A Exp.					0	0	1	1		
Operating Profit					226	486	520	544	588	788
Operating Margin					71.0%	71.1%	70.0%	69.5%	70.8%	68.6%
Net Profit					67	200	-155	-223	404	650
Net Margin					21.1%	29.2%	-20.9%	-28.5%	48.7%	56.6%
Free Cash Flow					261	472	528	530	504	684
Income Tax									0	1

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets					7448	8192	8906	9435	9924	15549
Cash & Equivalents					51	1	44	5	6	31
Accounts Receivable					9	9	6	15	21	38
Goodwill & Int. Ass.									0	30
Total Liabilities					6576	7154	8063	8858	8987	12049
Accounts Payable					211	389	438	473	426	373
Long-Term Debt					3376	3557	3881	4101	4298	7177
Shareholder's Equity					872	1031	835	569	928	3492

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets						2.6%	-1.8%	-2.4%	4.2%	5.1%
Return on Equity						21.0%	-16.6%	-31.8%	54.0%	29.4%
ROIC						5.8%	-4.2%	-5.6%	9.6%	11.3%
Shares Out.					371.7	395.3	408.1	410.6	413.4	668.2
Revenue/Share					0.88	7.65	8.17	8.46	8.81	4.13
FCF/Share					0.72	5.29	5.81	5.73	5.34	2.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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