



Dream Office REIT (DRETF)

Updated July 4th, 2019 by Noah Horwood

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	1.0%	Volatility Percentile:	16.0%
Fair Value Price:	\$17	5 Year Growth Estimate:	3.0%	Momentum Percentile:	53.3%
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.6%	Growth Percentile:	13.4%
Dividend Yield:	4.2%	5 Year Price Target	\$21	Valuation Percentile:	10.4%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	6.8%

Overview & Current Events

Dream Office REIT is an open-ended Investment Trust which acquires and manages predominantly office and industrial properties in major urban areas throughout Canada with a focus on downtown Toronto. The company's portfolio is made of: 68% of operations in Toronto, 14% in Montreal/Ottawa, 8% in Mississauga/North York, 4% in Calgary and 6% in other markets. As of the year end of 2018 Dream Office ownership interests included 7.3 million square feet of gross leasable area from 37 properties, which include 34 office properties, two properties under development and one property held for future redevelopment. Dream Office has leases with 641 tenants across Canada, a few of their larger tenants include: Government of Canada (11% of revenue), Government of Ontario (9.3%) and State Street Trust Company (4.2%). This \$1.1 billion market capitalization company is listed on the over-the-counter market in the U.S. under the trading symbol DRETF. For this report all figures will be in the company's home currency, the Canadian Dollar (CAD).

On April 10th, 2019 Dream Office released Q1 results for the period ending March 31st, 2019 and full year results for period ending December 31st, 2019 were reported on March 29th, 2019. Funds from operations per share (FFO/S) for the quarter totaled \$28.3 million (\$0.43 per share) against \$35.5 million (\$0.46 per share) in Q1 of 2018. For the year FFO/S totaled \$116 million (\$1.66) against \$198 million (\$2.03) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	\$3.04	\$2.43	\$2.69	\$2.86	\$2.88	\$2.88	\$1.69	\$2.54	\$2.03	\$1.66	\$1.73	\$2.01
DPS	\$2.20	\$2.20	\$2.20	\$2.20	\$2.23	\$2.24	\$2.24	\$1.56	\$1.25	\$1.00	\$1.03	\$1.16
Shares	24.7	45.9	66.2	97.6	103.4	107.9	107.9	104.8	73.7	59.4	57.8	51.8

Instead of EPS, we used funds from operations per share (FFO/S) as Dream Office's primary growth metric. We used FFO/S, because it more accurately communicates a REIT's true performance, EPS depreciates investment properties over time, however many investment properties actually increase in value over time. Dream Office's FFO/S has been very volatile over the last decade from inconsistent funds from operations and also a rapidly increasing share count to 2014-2015 and then decreasing by almost 50% from years 2016-2018. The reason Dream Office's shares have dropped such a significant amount in the last few years, since 2016 is because the company has been repurchasing shares. On October 23rd, 2018 the trust started another "Repurchase Plan" by the year ended December 31st, 2018 the trust purchased 668,157 REIT A Units and 4,475,664 REIT B Units, which translates to roughly \$116 million worth of shares. The current repurchase plan is set to terminate on August 16, 2019.

Going forward we expect the company to grow their FFO/S at 3% annually, we expect this growth rate to be driven by the company's continued share repurchases and the expected growing comparative property income with a major focus on the downtown Toronto market which makes up two-thirds of the trust's portfolio value. This growth rate drives a 5-year FFO/S estimate of \$2.01 and a 5-year price target of \$21.31, which is under the company's current price, by our calculations Dream Office is very overvalued, which is not sustainable over time.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	6.9	12.4	12.1	13.1	10.0	8.8	10.3	7.7	10.9	13.4	14.9	10.6
Avg. Yld.	10.6%	7.3%	6.7%	5.9%	7.8%	8.9%	12.9%	7.7%	4.5%	4.5%	4.2%	6.7%

Dream Office's average price to funds from operations ratio (P/FFO) has deviated significantly around their historic average of 15.1. Comparing current average P/FFO ratios to their historic average Dream Office is massively overvalued at current prices. We expect valuation multiple compression to reduce total returns by 6.6 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	72%	91%	82%	77%	77%	78%	133%	61%	62%	60%	60%	58%

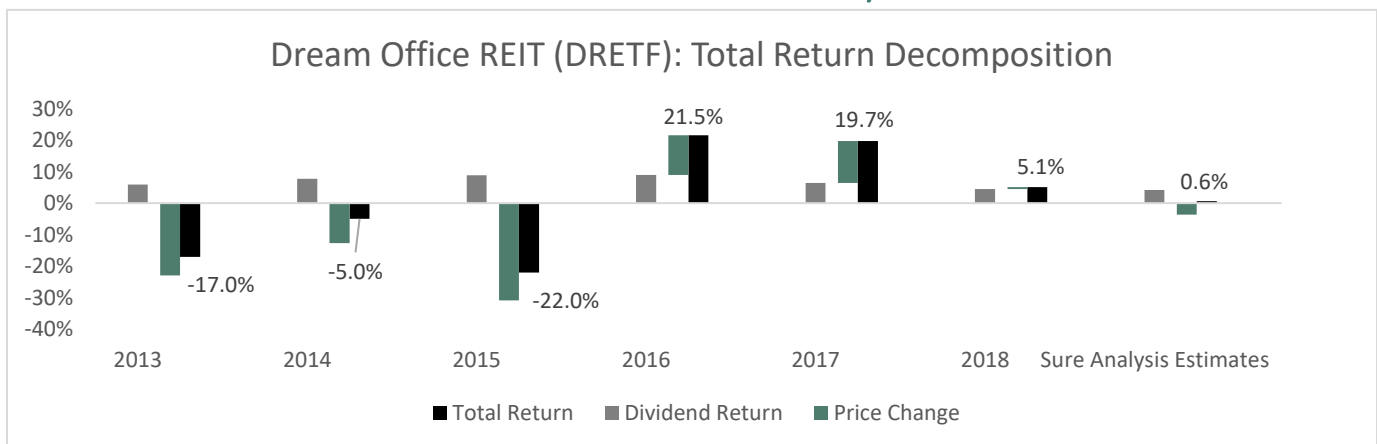
Dream Office has integrated best practices into their environmental platform since 2011. The company has been pro-actively trying to reduce their environmental footprint by decreasing their resource consumption and greenhouse gas emissions. The company also has a goal to use less energy and water to decrease waste to the environment. One way the company cuts down on resources is by pro-actively developing and maintaining high-quality energy efficient buildings. All of Dream Office's buildings over 100,000 square feet are BOMA BEST Sustainable Buildings certified, which means the buildings are recognized in excellence in energy and environmental management and performance in commercial real estate.

Dream Office has not been around for a recession, but historically companies who operate predominantly office properties do not fare well in recessions. While local businesses are deteriorating companies would be more likely to close offices rather than start new leases, so in a recession in the Canadian economy Dream Global should be adversely affected from potential losses of current and future tenants.

Final Thoughts & Recommendation

Overall, we expect total returns of 0.6% annually, mainly driven by their 4.2% annual yield on dividends, followed by a 3% improvement coming from growth and a reduction in total returns of 6.6% coming from our valuation estimate. As a result, we rate Dream Office REIT as a sell at current prices, especially considering the securities questionable performance if a recession arises.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	194	239	375	608	687	705	691	664	474	285
Gross Profit	123	144	216	349	392	402	388	369	262	155
Gross Margin	63.3%	60.0%	57.6%	57.3%	57.0%	56.9%	56.1%	55.5%	55.3%	54.3%
SG&A Exp.	7	11	14	21	24	24	12	12	45	16
D&A Exp.	51	1	1	2	5	11	15	21	22	17
Operating Profit	66	133	202	325	365	374	372	353	206	133
Operating Margin	34.2%	55.6%	53.8%	53.5%	53.1%	53.0%	53.9%	53.2%	43.5%	46.7%
Net Profit	13	216	401	291	445	159	-55	-880	135	158
Net Margin	6.9%	90.2%	107%	47.9%	64.8%	22.6%	-8.0%	-132%	28.4%	55.3%
Free Cash Flow	-55	-683	82	115	163	171	146	97	51	28
Income Tax	-2		0	2	0	1	2	2	-4	0

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1335	2583	4466	6353	7125	7030	6763	5487	3322	3123
Cash & Equivalents	12	109	112	24	31	11	2	8	97	9
Accounts Receivable	9	3	8	11	8	6	3	2	6	8
Goodwill & Int. Ass.	97		0	64	63	61	8	7	2	1
Total Liabilities	936	1368	2349	3057	3402	3252	3281	3115	1586	1626
Accounts Payable	23	30	6	7	10	3	3	1	4	4
Long-Term Debt	857	1202	2125	2778	3149	3097	3011	2650	1368	1406
Shareholder's Equity	399	1215	2117	3296	3723	3778	3482	2372	1736	1497
D/E Ratio	2.15	0.99	1.00	0.84	0.85	0.82	0.86	1.12	0.79	0.94

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.0%	11.0%	11.4%	5.4%	6.6%	2.3%	-0.8%	-14.4%	3.1%	4.9%
Return on Equity	3.5%	26.8%	24.1%	10.8%	12.7%	4.2%	-1.5%	-30.1%	6.6%	9.8%
ROIC	1.1%	11.8%	12.0%	5.6%	6.9%	2.3%	-0.8%	-15.3%	3.3%	5.3%
Shares Out.	24.7	45.9	66.2	97.6	103.4	107.9	107.9	104.8	73.7	59.4
Revenue/Share	8.72	4.85	5.66	6.23	6.64	6.53	6.41	6.34	6.43	4.80
FCF/Share	-2.47	-13.83	1.24	1.18	1.58	1.58	1.36	0.93	0.69	0.48

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

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