



Choice Properties REIT (PPRQF)

Updated May 12th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$8.71	5 Year CAGR Estimate:	2.6%	Market Cap:	\$6.2B
Fair Value Price:	\$5.50	5 Year Growth Estimate:	4.9%	Ex-Dividend Date:	5/29/20 ¹
% Fair Value:	158%	5 Year Valuation Multiple Estimate:	-8.7%	Dividend Payment Date:	6/15/20 ²
Dividend Yield:	6.4%	5 Year Price Target	\$7.00	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

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 over 700 properties which makes up over 60 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. Choice Properties' portfolio is made up of over 700 properties, including retail, industrial, office, multi-family, and development assets. Over 500 of Choice Properties' investments are to their largest tenant, Canada's largest retailer, Loblaw. This \$6.2 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'.

On April 22nd, 2020 Choice Properties released Q1 results. Funds from Operations came in at \$0.244 per diluted unit, down slightly from \$0.252 per diluted unit year-over-year. Borrowing costs declined from the year-ago period, but so did NOI. The decline in FFO per diluted unit was largely due to a higher weighted average number of units outstanding. Through April 22nd, the trust had received 86% of its contractual rents for April, showing that it was weathering the crisis pretty well thanks to its diversified portfolio. The company also enjoys strong liquidity, with \$1.3 billion available under its committed credit facility and no significant debt maturities for the remainder of the year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO/S	N/A	N/A	N/A	\$0.67	\$0.64	\$0.56	\$0.74	\$0.69	\$0.61	\$0.66	\$0.55	\$0.70
DPS	N/A	N/A	N/A	\$0.51	\$0.56	\$0.47	\$0.51	\$0.58	\$0.54	\$0.56	\$0.56	\$0.60
Shares³	N/A	N/A	N/A	371.7	395.3	408.1	410.6	413.4	668.2	672.5	672.5	690.1

For Choice Properties' primary growth metric, we used adjusted funds from operations per share (FFO/S) instead of the typical EPS since AFFO/S gives a much more accurate picture of a REIT's 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.

Given the fairly slow growth performance over the past seven years and the headwinds facing the economy in light of the COVID-19 outbreak, we are expecting a meaningful decline in AFFO/S this year and a steady recovery in the years following as the company's quality, diversification, and sound balance sheet will enable it to weather the current crisis.

Choice Properties has been increasing their dividend steadily on a same-currency basis since 2015. The company kept the dividend at \$0.65 (CAD) 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 keep their dividend steady this year and then increase their dividend slowly once the company returns to AFFO/S growth.

¹ Estimate

² Estimate

³ In millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	N/A	N/A	N/A	N/A	11.5	12.2	13.5	12.5	11.2	13.5	15.8	10.0
Avg. Yld.	N/A	N/A	N/A	6.2%	6.2%	5.5%	5.3%	5.5%	6.4%	5.3%	6.4%	8.6%

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 the current P/FFO ratio to their historic average, Choice Properties is significantly overvalued at current prices as we view 10 times FFO as a fair valuation given the REIT's heavy exposure to the out-of-favor retail sector, as well as current headwinds from the COVID-19 outbreak.

Safety, Quality, Competitive Advantage, & Recession Resiliency

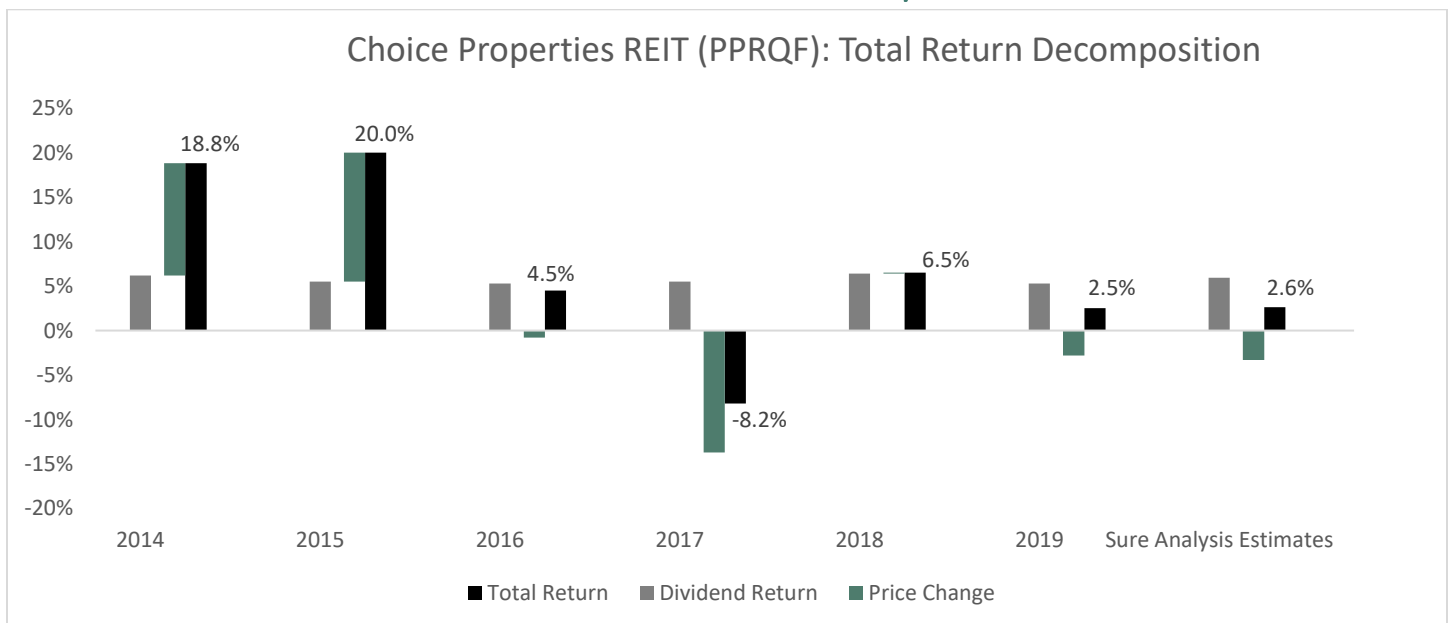
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	N/A	N/A	N/A	73%	84%	67%	69%	68%	71%	72%	102%	86%

Choice Properties' portfolio has outsized exposure to Loblaw, making the REIT 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 a 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

Overall, we expect total returns of 2.6% annually going forward, mainly driven by their 6.4% annual dividend yield and mid-single-digit FFO-per-share growth rate, offset by considerable multiple compression. Given the underwhelming total return potential and the company's large exposure to retail, we rate it as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue				319	683	743	784	831	1148	1,289
Gross Profit				239	510	551	583	621	834	920
Gross Margin				75.0%	74.7%	74.1%	74.4%	74.8%	72.6%	71.4%
SG&A Exp.				12	24	6	39	35	50	61
D&A Exp.						1	1			
Operating Profit				226	486	520	544	588	788	863
Operating Margin				71.0%	71.1%	70.0%	69.5%	70.8%	68.6%	67.0%
Net Profit				67	200	-155	-223	404	650	(581)
Net Margin				21.1%	29.2%	-20.9%	-28.5%	48.7%	56.6%	-45.1%
Free Cash Flow				261	472	528	530	504	684	581
Income Tax									1	(1)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets				7448	8192	8906	9435	9924	15549	15576
Cash & Equivalents				51	1	44	5	6	31	42
Accounts Receivable				9	9	6	15	21	38	95
Goodwill & Int. Ass.									30	30
Total Liabilities				6576	7154	8063	8858	8987	12049	12478
Accounts Payable				211	389	438	473	426	373	
Long-Term Debt				3376	3557	3881	4101	4198	7177	6541
Shareholder's Equity				872	1031	835	569	928	3492	3,090

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets					2.6%	-1.8%	-2.4%	4.2%	5.1%	-3.7%
Return on Equity					21.0%	-16.6%	-31.8%	54.0%	29.4%	-17.7%
ROIC					5.8%	-4.2%	-5.6%	9.6%	11.3%	-8.5%
Shares Out.				371.7	395.3	408.1	410.6	413.4	668.2	672.5
Revenue/Share				0.88	38.09	32.38	34.55	43.25	4.13	4.15
FCF/Share				0.72	5.29	5.81	5.73	5.34	2.46	1.87

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

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