



Choice Properties REIT (PPRQF)

Updated March 8th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$10	5 Year CAGR Estimate:	2.5%	Market Cap:	\$7.4B
Fair Value Price:	\$7	5 Year Growth Estimate:	3.1%	Ex-Dividend Date:	3/25/21 ¹
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	4/15/21 ²
Dividend Yield:	5.6%	5 Year Price Target	\$9	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	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). 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 \$7.4 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 February 10th, 2021 Choice Properties released Q4 results. Funds from Operations came in at \$0.238 per diluted unit, up from \$0.237 per diluted unit year-over-year. Net income came in at \$116.6M. The increase in FFO per diluted unit was largely due to the reduction in net interest expense and other financing charges resulting from deleveraging activities, partially offset by higher bad debt expense. The company collected 98% of rents in Q4. Meanwhile, the company has completed over \$1 billion of real estate transactions this year through its capital recycling program.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/S	N/A	N/A	\$0.67	\$0.64	\$0.56	\$0.74	\$0.69	\$0.61	\$0.66	\$0.72	\$0.73	\$0.85
DPS	N/A	N/A	\$0.30	\$0.54	\$0.51	\$0.52	\$0.56	\$0.57	\$0.56	\$0.56	\$0.56	\$0.56
Shares³	N/A	N/A	371.7	395.3	408.1	410.6	413.4	668.2	672.5	721.6	750	850

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 eight years and the headwinds facing the economy in light of the COVID-19 outbreak, we are expecting extra challenges 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 sustained or grown 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 respectable in the low single digits. Going forward, we expect Choice Properties to keep their dividend steady to allow the company's cash flow generation to catch up with the payouts. We also note that the dividend can move up or down when it is converted into US dollars depending on current exchange rates.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	N/A	N/A	N/A	11.5	12.2	13.5	12.5	11.2	13.5	15.1	13.7	10.0
Avg. Yld.	N/A	N/A	3.0%	7.3%	7.5%	5.2%	6.5%	8.3%	6.3%	5.3%	5.6%	6.5%

Choice Properties' average price to funds from operations ratio (P/FFO) has remained around 12-13 for much of their seven reportable years. Comparing the current P/FFO ratio to their historic average, Choice Properties is overvalued. Furthermore, we view 10 times FFO as a fair valuation given the REIT's heavy exposure to the out-of-favor retail sector alongside the current headwinds from the COVID-19 outbreak.

Safety, Quality, Competitive Advantage, & Recession Resiliency

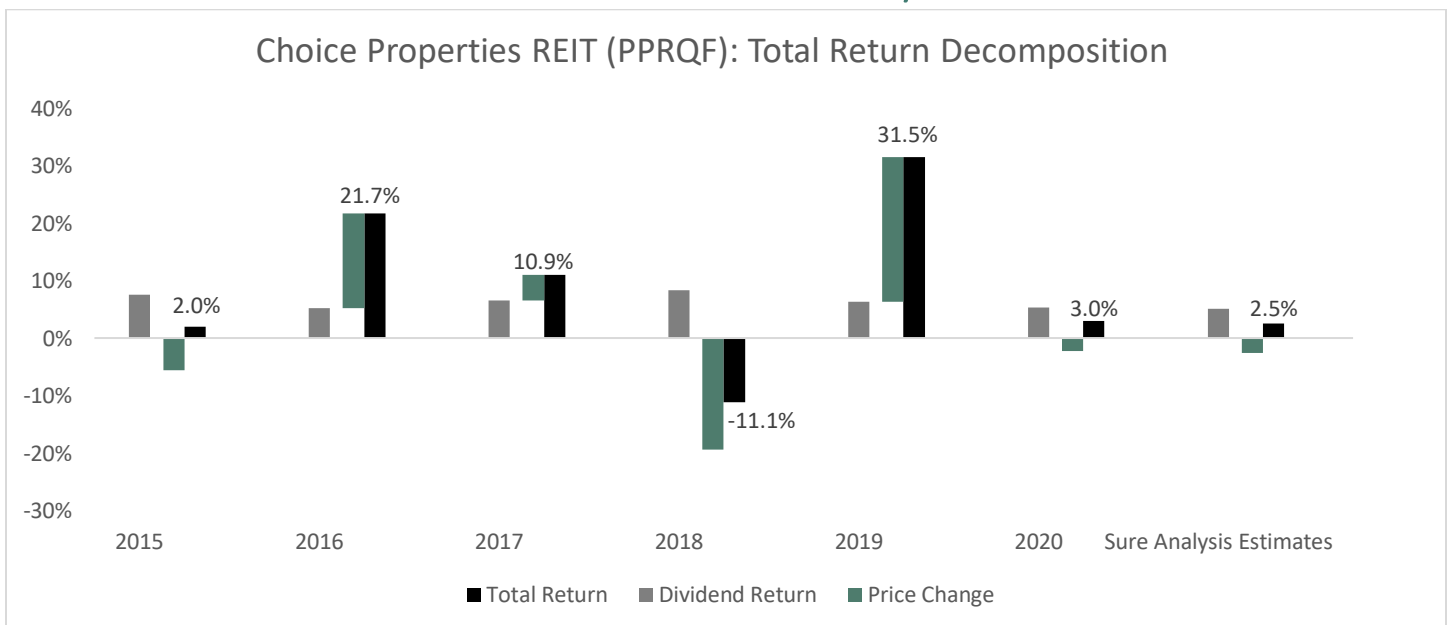
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	N/A	N/A	45%	84%	91%	70%	81%	93%	85%	80%	77%	65%

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 fairly conservative payout ratio for a REIT.

Final Thoughts & Recommendation

Overall, we expect total returns of 2.5% annually going forward, mainly driven by their 5.6% dividend yield and low-single-digit FFO-per-share growth rate, offset by considerable multiple compression. Given the weak 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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