



Choice Properties REIT (PPRQF)

Updated February 28th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$11.4	5 Year CAGR Estimate:	0.0%	Market Cap:	\$8.4B
Fair Value Price:	\$7.7	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	02/25/23 ¹
% Fair Value:	148%	5 Year Valuation Multiple Estimate:	-7.5%	Dividend Payment Date:	03/15/23 ²
Dividend Yield:	5.2%	5 Year Price Target	\$9	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	6.1%

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 \$8.4 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 16th, 2022 Choice Properties released Q4 results. Funds from Operations came in at \$0.242 per diluted unit, up slightly from \$0.239 per diluted unit year-over-year. The trust reported a net loss of \$163.1 million primarily due to \$285.7 million unfavorable change in the adjustment to the fair value of the Trust's Exchangeable Units. The trust also had \$0.8 million in bad debt expense. Meanwhile, the trust collected 99% of rents in Q4 and cash flows from operating activities stood at \$244.2 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/S	N/A	\$0.33	\$0.59	\$0.57	\$0.62	\$0.70	\$0.62	\$0.64	\$0.63	\$0.75	\$0.77	\$0.85
DPS	N/A	\$0.30	\$0.54	\$0.51	\$0.52	\$0.56	\$0.57	\$0.56	\$0.57	\$0.59	\$0.59	\$0.57
Shares³	N/A	87.6	89.3	91.0	92.6	94.3	278.2	310.3	326.9	327.6	327.6	350

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 lingering headwinds facing commercial real estate in light of COVID-19, we are expecting weak growth 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 challenges.

Choice Properties has sustained or grown their dividend steadily on a same-currency basis since 2015. The company kept the dividend at an annualized \$0.65 (CAD) for their first three years of operations. The company's average annual dividend growth rate after that was respectable in the low single digits before dividend growth had to pause due to headwinds facing the retail industry and COVID-19. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	N/A	N/A	11.5	12.2	13.5	12.5	11.2	13.5	15.1	18.2	14.8	10.0
Avg. Yld.	N/A	N/A	7.3%	7.5%	5.2%	6.5%	8.3%	6.3%	5.2%	4.9%	5.2%	6.7%

Choice Properties' average price to funds from operations ratio (P/FFO) has remained around 12-13 for much of their 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 lingering headwinds from the COVID-19 outbreak.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	N/A	45%	84%	91%	70%	81%	93%	85%	80%	88%	77%	67%

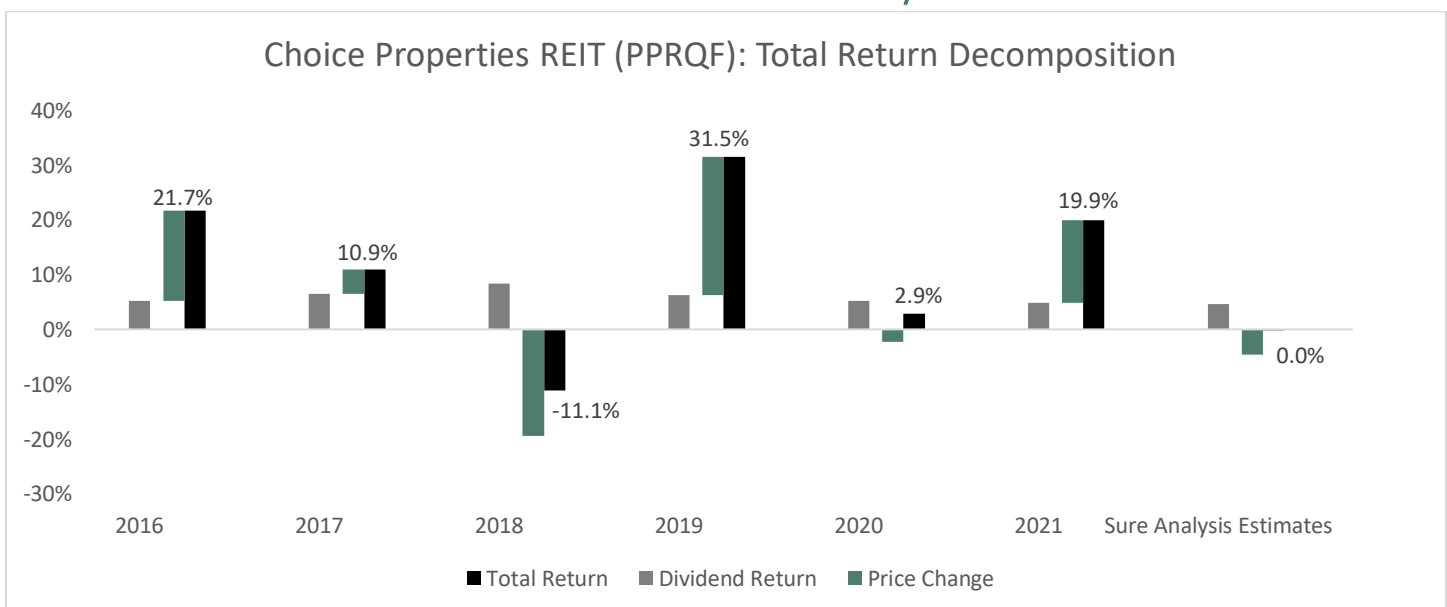
Choice Properties' portfolio has outsized exposure to Loblaw, making the REIT rather dependent on Loblaw's continued operations. One benefit of their strategic alliance with Loblaw is long-term leases, which gives some certainty for future earnings. Choice Properties has not been around for a recessionary 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.

Final Thoughts & Recommendation

Overall, we expect total returns of 0% annually going forward, mainly driven by their 5.2% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue		309	619	582	592	641	886	971	948	1,031
Gross Profit		232	462	432	440	479	643	693	662	727
Gross Margin		75.0%	74.7%	74.1%	74.4%	74.8%	72.6%	71.4%	69.8%	70.6%
SG&A Exp.		12	21	(1)	22	19	27	30	27	32
Operating Profit		220	441	414	418	461	616	662	628	695
Operating Margin		71.0%	71.3%	71.1%	70.6%	71.9%	69.6%	68.1%	66.2%	67.4%
Net Profit		65	181	(122)	(168)	312	501	(438)	336	18
Net Margin		21.1%	29.2%	-20.9%	-28.5%	48.7%	56.6%	-45.1%	35.5%	1.8%
Free Cash Flow		254	428	414	400	389	313	437	464	534
Income Tax						-	0	(1)	(1)	(1)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		6995	7057	6418	6998	7891	11416	11924	12271	12684
Cash & Equivalents		48	1	32	4	5	23	32	163	66
Accounts Receivable		8	8	4	11	17	29	46	61	57
Goodwill & Int. Ass.						-	22	23	23	22
Total Liabilities		6176	6163	5810	6570	7146	8847	9553	9508	10088
Accounts Payable		198	335	316	351	339		383	373	469
Long-Term Debt		3171	3064	2797	3041	3418	5270	5007	5086	4886
Shareholder's Equity		819	888	602	422	738	2564	2366	2756	2596

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			2.6%	-1.8%	-2.5%	4.2%	5.2%	-3.8%	2.8%	0.1%
Return on Equity			21.2%	-16.3%	-32.9%	53.8%	30.4%	-17.8%	13.1%	0.7%
ROIC			5.8%	-4.1%	-5.8%	9.6%	11.5%	-8.5%	6.7%	0.4%
Shares Out.		87.6	89.3	91.0	92.6	94.3	278.2	310.3	326.9	327.6
Revenue/Share		0.85	6.93	6.40	6.39	6.80	3.19	3.13	2.90	3.15
FCF/Share		0.70	4.79	4.55	4.33	4.12	1.12	1.41	1.42	1.63

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

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