



# Choice Properties REIT (PPRQF)

Updated November 13<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$9.14	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Market Cap:</b>	\$3.0B
<b>Fair Value Price:</b>	\$8.82	<b>5 Year Growth Estimate:</b>	3.3%	<b>Ex-Dividend Date:</b>	11/30/23 <sup>1</sup>
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.7%	<b>Dividend Payment Date:</b>	12/15/23 <sup>2</sup>
<b>Dividend Yield:</b>	5.9%	<b>5 Year Price Target</b>	\$10	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 \$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'.

Choice Properties announced its Q3 results on November 9<sup>th</sup>, 2023. The company maintained stable and consistent cash flow with near-full occupancy, leading to substantial same-asset cash Net Operating Income (NOI) growth and year-over-year Funds From Operations (FFO) growth. Their core business is supported by a robust balance sheet, contributing to stable cash flows, especially from their retail properties anchored by grocery stores and their high-demand industrial assets. During the quarter, PPRQF engaged in limited transaction activities, including the acquisition of a retail property with a Shoppers Drug Mart and a Lifemark in Hamilton. They also completed dispositions worth \$93 million, which included a retail asset, two industrial assets, and one office property. Notably, this marked their exit from office as an asset class.

The portfolio's performance remained strong, with leasing activity robust and tenant resilience evident. The portfolio maintained 97.7% occupancy, a 30-basis point increase from the last quarter. Approximately 4.1 million square feet of leases expired during the quarter, with a tenant retention rate of 98%. New leasing comprised 259,000 square feet. Financially, PPRQF's reported FFO for the quarter was \$181 million, or \$0.25 per unit. This figure includes lease surrender income of \$6.2 million and a \$1.8 million charge related to severance and other one-time employee compensation expenses. The FFO per unit reflects an approximate 4.6% increase from the third quarter of 2022. The company's IFRS NAV increased to \$13.69 per unit, an increase of \$25 million over the last quarter.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFO/S</b>	\$0.33	\$0.59	\$0.57	\$0.62	\$0.70	\$0.62	\$0.64	\$0.63	\$0.64	\$0.63	<b>\$0.98</b>	<b>\$1.15</b>
<b>DPS</b>	\$0.30	\$0.54	\$0.51	\$0.52	\$0.56	\$0.57	\$0.56	\$0.58	\$0.58	\$0.56	<b>\$0.54</b>	<b>\$0.60</b>
<b>Shares<sup>3</sup></b>	87.6	89.3	91.0	92.6	94.3	278.2	310.3	326.9	327.6	327.8	<b>327.9</b>	<b>350</b>

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 strength of its portfolio, we are expecting a solid 3.3% AFFO/share CAGR moving forward as the REIT will continue to grow at a steady clip through rent hikes and opportunistic growth investments over the next

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> In millions

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half decade. 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 growing roughly in-line with AFFO per share growth. We also note that the dividend can move up or down when it is converted into US dollars depending on current exchange rates.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	N/A	11.5	12.2	13.5	12.5	11.2	13.5	15.1	18.2	17.0	9.3	9.0
Avg. Yld.	N/A	7.30%	7.50%	5.20%	6.50%	8.30%	6.30%	5.20%	4.90%	5.20%	5.9%	5.8%

Comparing the current P/FFO ratio to their historic average, Choice Properties is undervalued. However, we view 9 times FFO as a fair valuation given the REIT's heavy exposure to the out-of-favor retail sector. As a result, we expect minor headwinds to total returns moving forward stemming from a contracting valuation multiple.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

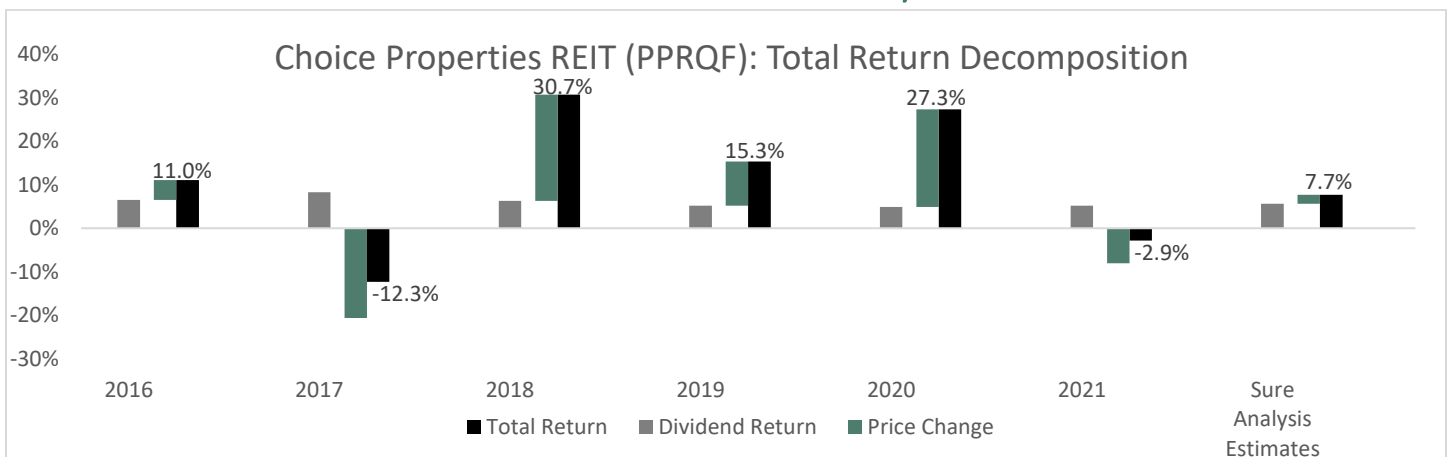
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	91%	92%	89%	84%	80%	92%	88%	92%	91%	89%	55%	52%

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 annualized total returns of 7.7% over the next half decade, mainly driven by the 5.9% dividend yield and low-single-digit FFO-per-share growth rate, partially offset by slight expected multiple compression. Given the mediocre total return potential, we rate it as a Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	309	619	582	592	641	886	971	948	1,031	972
<b>Gross Profit</b>	232	462	432	440	479	643	693	662	727	692
<b>Gross Margin</b>	75.0%	74.7%	74.1%	74.4%	74.8%	72.6%	71.4%	69.8%	70.6%	71.2%
<b>SG&amp;A Exp.</b>	12	21	(1)	22	19	27	30	27	32	36
<b>Operating Profit</b>	220	441	414	418	461	616	662	628	695	655
<b>Operating Margin</b>	71.0%	71.3%	71.1%	70.6%	71.9%	69.6%	68.1%	66.2%	67.4%	67.4%
<b>Net Profit</b>	65	181	(122)	(168)	312	501	(438)	336	18	572
<b>Net Margin</b>	21.1%	29.2%	-20.9%	-28.5%	48.7%	56.6%	-45.1%	35.5%	1.8%	58.9%
<b>Free Cash Flow</b>	254	428	414	400	389	313	437	464	534	487
<b>Income Tax</b>					-	0	(1)	(1)	(1)	(0)

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	6995	7057	6418	6998	7891	11416	11924	12271	12684	12393
<b>Cash &amp; Equivalents</b>	48	1	32	4	5	23	32	163	66	48
<b>Accounts Receivable</b>	8	8	4	11	17	29	46	61	57	59
<b>Goodwill &amp; Int. Ass.</b>					-	22	23	23	22	237
<b>Total Liabilities</b>	6176	6163	5810	6570	7146	8847	9553	9508	10088	16
<b>Accounts Payable</b>	198	335	316	351	339		383	373	469	9575
<b>Long-Term Debt</b>	3171	3064	2797	3041	3418	5270	5007	5086	4886	426
<b>Shareholder's Equity</b>	819	888	602	422	738	2564	2366	2756	2596	4827

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>		2.6%	-1.8%	-2.5%	4.2%	5.2%	-3.8%	2.8%	0.1%	4.6%
<b>Return on Equity</b>		21.2%	-16.3%	-32.9%	53.8%	30.4%	-17.8%	13.1%	0.7%	21.1%
<b>ROIC</b>		5.8%	-4.1%	-5.8%	9.6%	11.5%	-8.5%	6.7%	0.4%	7.6%
<b>Shares Out.</b>	87.6	89.3	91.0	92.6	94.3	278.2	310.3	326.9	327.6	327.8
<b>Revenue/Share</b>	0.85	6.93	6.40	6.39	6.80	3.19	3.13	2.90	3.15	1.34
<b>FCF/Share</b>	0.70	4.79	4.55	4.33	4.12	1.12	1.41	1.42	1.63	0.67

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

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