



# Choice Properties REIT (PPRQF)

Updated March 11<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$10.00	<b>5 Year CAGR Estimate:</b>	-0.8%	<b>Market Cap:</b>	\$3.3B
<b>Fair Value Price:</b>	\$6.03	<b>5 Year Growth Estimate:</b>	2.3%	<b>Ex-Dividend Date:</b>	3/30/24 <sup>1</sup>
<b>% Fair Value:</b>	166%	<b>5 Year Valuation Multiple Estimate:</b>	-9.6%	<b>Dividend Payment Date:</b>	4/15/24 <sup>2</sup>
<b>Dividend Yield:</b>	5.5%	<b>5 Year Price Target</b>	\$7	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## 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 \$3.3 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 Q4 results on February 14<sup>th</sup>, 2024. In the fourth quarter of 2023, the Trust experienced an unfavorable non-cash fair value adjustment on Exchangeable Units amounting to \$502.6 million due to the rise in the Trust's unit price. This adjustment primarily contributed to a net loss of \$445.7 million reported for the quarter. Despite this, the Trust saw an increase in Funds from Operations (FFO) per diluted unit of \$0.255, marking a 5.8% increase compared to the same period in 2022. The period-end occupancy stood at 98.0%, with Retail at 97.7%, Industrial at 99.0%, and Mixed-Use & Residential at 94.2%. Furthermore, Same-Asset Net Operating Income (NOI) on a cash basis increased by 4.2% compared to the fourth quarter of 2022, with Retail, Industrial, and Mixed-Use & Residential segments witnessing increases of 3.2%, 8.5%, and 9.3%, respectively. The Trust completed transactions totaling \$238.1 million in the quarter, including acquisitions and dispositions of various properties. Additionally, properties worth \$354.7 million were transferred under development to income-producing status, contributing approximately 1,434,000 square feet of new commercial space. The Trust also invested \$92.1 million in development. Ending the quarter with robust liquidity, the Trust had \$1.5 billion of available credit under its revolving credit facility and a pool of unencumbered properties worth \$12.7 billion. Post-quarter, the Trust increased distributions and repaid \$200.0 million Series D senior unsecured debentures upon maturity. In 2023, the Trust reported a net income of \$796.7 million, representing an increase from \$744.3 million in 2022, and recorded a 4.6% growth in Same-Asset NOI on a cash basis. FFO per diluted unit also increased by 4.0%, and Adjusted Debt to EBITDAFV improved modestly, ending the year at 7.2x.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>AFFO/S</b>	\$0.59	\$0.57	\$0.62	\$0.70	\$0.62	\$0.64	\$0.63	\$0.64	\$0.60	\$0.61	<b>\$0.67</b>	<b>\$0.75</b>
<b>DPS</b>	\$0.54	\$0.51	\$0.52	\$0.56	\$0.57	\$0.56	\$0.58	\$0.58	\$0.55	\$0.56	<b>\$0.55</b>	<b>\$0.58</b>
<b>Shares<sup>3</sup></b>	89.3	91.0	92.6	94.3	278.2	310.3	326.9	327.6	327.8	327.9	<b>327.9</b>	<b>340</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 2.3% AFFO/share CAGR moving forward

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> 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.



# Choice Properties REIT (PPRQF)

Updated March 11<sup>th</sup>, 2024 by Samuel Smith

as the REIT will continue to grow at a steady clip through rent hikes and opportunistic growth investments over the next 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	11.5	12.2	13.5	12.5	11.2	13.5	15.1	18.2	17.0	9.3	14.9	9.0
Avg. Yld.	7.30%	7.50%	5.20%	6.50%	8.30%	6.30%	5.20%	4.90%	5.20%	5.9%	5.5%	8.6%

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 headwinds to total returns moving forward stemming from a contracting valuation multiple.

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

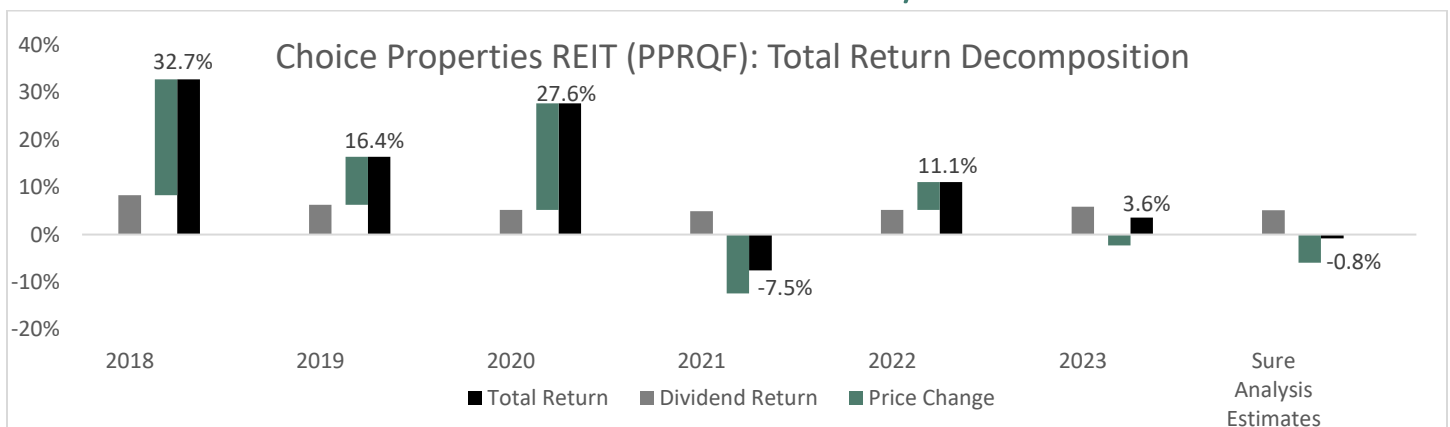
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	91.5%	89.5%	83.9%	80.0%	91.9%	87.5%	92.1%	90.6%	91.7%	91.8%	82.1%	77.3%

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 negative annualized total returns of -0.8% over the next half decade, mainly driven by the 5.5% dividend yield and low-single-digit FFO-per-share growth rate, completely offset by expected multiple compression. Given the poor total return potential, we rate it as a Sell.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Choice Properties REIT (PPRQF)

Updated March 11<sup>th</sup>, 2024 by Samuel Smith

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	619	582	592	641	886	971	948	1,031	972	989
<b>Gross Profit</b>	462	432	440	479	643	693	662	727	692	700
<b>Gross Margin</b>	74.7%	74.1%	74.4%	74.8%	72.6%	71.4%	69.8%	70.6%	71.2%	70.8%
<b>SG&amp;A Exp.</b>	21	(1)	22	19	27	30	27	32	36	47
<b>Operating Profit</b>	441	414	418	461	616	662	628	695	655	651
<b>Operating Margin</b>	71.3%	71.1%	70.6%	71.9%	69.6%	68.1%	66.2%	67.4%	67.4%	65.9%
<b>Net Profit</b>	181	(122)	(168)	312	501	(438)	336	18	572	590
<b>Net Margin</b>	29.2%	-20.9%	-28.5%	48.7%	56.6%	-45.1%	35.5%	1.8%	58.9%	59.7%
<b>Free Cash Flow</b>	428	414	400	389	313	437	464	534	514	475
<b>Income Tax</b>				-	0	(1)	(1)	(1)	(0)	0

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	7,057	6,418	6,998	7,891	11,416	11,924	12,271	12,684	12,393	13,047
<b>Cash &amp; Equivalents</b>	1	32	4	5	23	32	57	66	48	190
<b>Accounts Receivable</b>	8	4	11	17	28	46	61	57	59	86
<b>Goodwill &amp; Int. Ass.</b>				-	22	23	23	22	16	11
<b>Total Liabilities</b>	6,163	5,810	6,570	7,146	8,847	9,553	9,508	10,088	9,575	9,754
<b>Accounts Payable</b>	335	316	351	339	274	383	373	469	426	526
<b>Long-Term Debt</b>	3,064	2,797	3,041	3,418	5,270	5,007	5,086	4,886	4,827	5,047
<b>Shareholder's Equity</b>	888	602	422	738	2,564	2,366	2,756	2,596	2,818	3,293

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.6%	-1.8%	-2.5%	4.2%	5.2%	-3.8%	2.8%	0.1%	4.6%	4.6%
<b>Return on Equity</b>	21.1%	-16.2%	-32.5%	53.2%	30.2%	-17.7%	13.1%	0.7%	21.1%	19.3%
<b>ROIC</b>	4.5%	-3.3%	-4.9%	8.2%	8.4%	-5.8%	4.4%	0.2%	7.6%	7.4%
<b>Shares Out.</b>	89.3	91.0	92.6	94.3	278.2	310.3	326.9	327.6	327.8	327.9
<b>Revenue/Share</b>	1.62	1.45	1.44	1.55	1.52	1.41	1.34	1.43	1.34	1.37
<b>FCF/Share</b>	1.12	1.03	0.98	0.94	0.53	0.63	0.66	0.74	0.71	0.66

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

## Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.