



# SmartCentres Real Estate Investment Trust (CWYUF)

Published March 27<sup>th</sup>, 2025 by Kody Kester

## Key Metrics

<b>Current Price:</b>	\$17.64	<b>5 Year Annual Expected Total Return:</b>	6.2%	<b>Market Cap:</b>	\$3.0B
<b>Fair Value Price:</b>	\$17.42	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	03/31/25
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	04/15/25
<b>Dividend Yield:</b>	7.3%	<b>5 Year Price Target</b>	\$17.42	<b>Years Of Dividend Growth<sup>1</sup>:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Real Estate	<b>Rating:</b>	Sell

## Overview & Current Events

Founded in 1989, SmartCentres Real Estate Investment Trust is a Canadian real estate investment trust mostly focused on retail properties. In 1994, the company helped Walmart enter the Canadian market. Decades later, CWYUF remains Walmart's only real estate development partner in the world. The company completed its initial public offering in 2012.

As of December 31<sup>st</sup>, 2024, the company owned 195 properties spanning 35.3 million square feet throughout population centers in Canada. CWYUF has approximately 85 million square feet of projected mixed-used development initiatives in its pipeline, which make up about 14% of total assets. This is several times larger than the peer average of 4.2%.

CWYUF's typical tenants are large (95%+ of tenants are national or regional) and provide consumers with essential services. These include the likes of Walmart (23.2% of annualized rent) and Canadian supermarket chains Loblaws and Sobeys (2.8% and 2.1% of annualized rent, respectively). Other financially healthy tenants include the likes of off-price department store retailer TJX Companies (4.4% of annualized rent) and consumer electronics retailer Best Buy (1.4% of annualized rent). CWYUF's focus on well-established tenants translates into a 98.7% committed occupancy rate, which is above the peer average of 97.3%.

On February 12<sup>th</sup>, the REIT shared its financial results for the fourth quarter ended December 31<sup>st</sup>, 2024. CWYUF's revenue grew by 7.3% year-over-year to \$167.7 million (adjusted for average CAD to USD conversion rates in Q4 2023 and Q4 2024). Strong occupancy, higher lease rates, and modest growth in total properties contributed to these results. The company's AFFO per unit edged 0.6% higher over the year-ago period to \$0.35. Earlier this month, CWYUF maintained its monthly distribution per unit of 0.15417 CAD (or \$0.107). Since its inception, the company has never cut its distribution. However, it also hasn't been raised in native currency since 2019.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$1.43	\$1.56	\$1.65	\$1.57	\$1.59	\$1.61	\$1.51	\$1.39	\$1.38	\$1.31	<b>\$1.34</b>	<b>\$1.34</b>
<b>DPS</b>	\$1.26	\$1.25	\$1.32	\$1.36	\$1.37	\$1.38	\$1.48	\$1.42	\$1.37	\$1.35	<b>\$1.28</b>	<b>\$1.28</b>
<b>Shares<sup>1</sup></b>	153.5	155.1	157.6	159.6	169.2	170.1	170.2	170.2	170.3	170.4	<b>170.4</b>	<b>170.7</b>

CWYUF's AFFO per unit in CAD has been relatively flat since 2015. Unfortunately, deterioration in the CAD to USD exchange rate has caused a gradual decline in AFFO per unit in USD over the years. We continue to think that the CAD will weaken relative to the USD in the years ahead. CWYUF does have some positives going for it. Occupancy is at a five-year high and rental growth was solid at 8.8% on lease extensions during the quarter. The company has also signed a new lease with Walmart for the South Oakville Center, which is expected to open in late summer. Development opportunities with the likes of Walmart are expected to be announced throughout the year as well. Overall, the macro headwinds of CAD to USD conversion are probably going to cancel out these tailwinds, though. That's why we think AFFO per unit will be about unchanged in USD over the medium term.

<sup>1</sup> In its original Canadian Dollar declaration.

<sup>2</sup> Share count is in millions.



# SmartCentres Real Estate Investment Trust (CWYUF)

Published March 27<sup>th</sup>, 2025 by Kody Kester

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	15.3	15.3	14.9	14.5	15.1	11.3	16.8	14.2	13.6	13.1	13.2	13.0
Avg. Yld.	5.8%	5.2%	5.4%	6.0%	5.7%	7.6%	5.8%	7.2%	7.3%	7.9%	7.3%	7.3%

Since 2015, CWYUF’s P/AFFO ratio has ranged from as little as the low-double-digits to the mid-teens. The average P/AFFO over this period has been 14.4. Guiding our fair value is the thought that 10-year U.S. Treasury yields will remain above the average over the past 10 years. This is why we believe that a reasonable fair value is one standard deviation below the 10-year average P/AFFO ratio. That yields a fair value P/AFFO multiple of approximately 13. This suggests shares of CWYUF are fully valued right now.

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

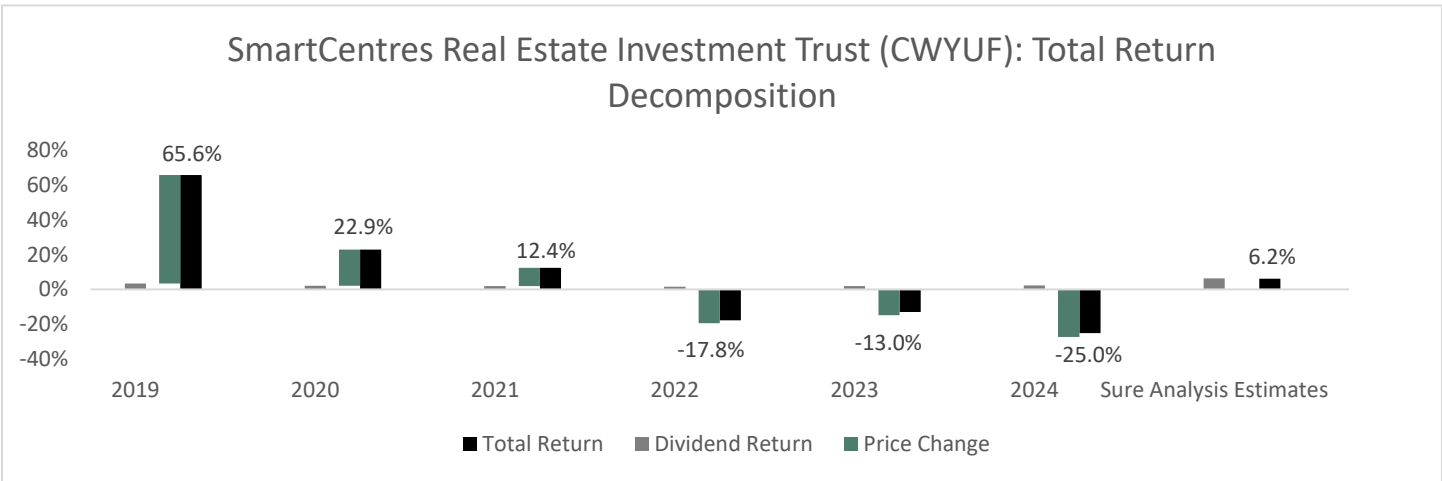
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	88%	80%	80%	87%	86%	86%	98%	102%	99%	103%	96%	96%

CWYUF’s relationship with Walmart as its sole developer is a key competitive advantage for the company. That’s because there’s arguably no better anchor tenant than Walmart. Along with the property portfolio being within 10 kilometers of more than 90% of the Canadian population, this tends to result in high foot traffic at its properties. CWYUF’s adjusted debt to adjusted EBITDA ratio of 9.6x over the last 12 months represents an improvement over the 9.8x leverage ratio in Q3 2024. The company’s interest coverage ratio of 2.5x is also okay for the reliability of its cash flow. That explains the BBB credit rating on a stable outlook from the Canadian rating agency, DBRS. The 7.3% distribution yield appears to be stretched. In USD, the payout ratio was 103% in 2024. Even in CAD, the payout ratio was about 97% for the year. Such an elevated payout ratio leaves CWYUF with no room for error. A breakdown in its relationships with key tenants like Walmart could adversely impact results and force a distribution cut.

## Final Thoughts & Recommendation

CWYUF’s 7.3% yield, lack of AFFO per unit growth potential, and 0.3% annual valuation multiple downside potential could lead to a 6.2% annual total return potential through 2030. It hasn’t cut the distribution in the native currency to this point. However, the company’s payout ratio has been particularly elevated in recent years (an average of 84% or so from 2015 through 2019 to roughly 98% from 2020 to 2024). This leads us to believe that there are more compelling REITs in the investment universe that can provide safer income at comparable valuations. Still, with no dividend increase streak, we’re initiating the stock at a sell rating.

## Total Return Breakdown by Year



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.



# SmartCentres Real Estate Investment Trust (CWYUF)

Published March 27<sup>th</sup>, 2025 by Kody Kester

## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	524	548	577	610	608	583	623	618	618	670
Gross Profit	354	377	385	409	414	375	427	386	380	399
Gross Margin	67.6%	68.8%	66.7%	67.1%	68.2%	64.3%	68.6%	62.5%	61.5%	59.6%
SG&A Exp.	27	36	37	43	48	51	64	25	26	27
D&A Exp.	1	5	6	7	6	11	10	8	8	5
Operating Profit	327	340	347	365	365	322	362	361	353	372
Operating Margin	62.4%	62.1%	60.2%	59.8%	60.1%	55.3%	58.1%	58.3%	57.2%	55.5%
Net Profit	211	243	229	258	237	56	660	397	306	173
Net Margin	40.3%	44.4%	39.7%	42.3%	38.9%	9.6%	106%	64.1%	49.6%	25.8%
Free Cash Flow	232	239	272	270	259	221	296	284	244	273

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	6,129	6,482	7,459	6,945	7,601	8,410	8,857	8,622	8,974	8,319
Cash & Equivalents	15	17	129	22	42	623	49	26	26	26
Accounts Receivable	7	6	9	13	12	45	28	42	20	19
Inventories	-	-	16	17	19	20	21	30	39	22
Goodwill & Int. Ass.	38	38	40	36	37	36	35	32	32	29
Total Liabilities	2,899	3,022	3,621	3,268	3,491	4,358	4,276	4,081	4,181	3,903
Accounts Payable	55	51	70	69	66	61	62	192	72	69
Long-Term Debt	2,732	2,846	3,365	3,018	3,235	4,086	3,807	3,672	3,769	3,516
Shareholder's Equity	2,661	2,854	3,176	3,046	3,439	3,386	3,826	3,777	3,974	3,653
LTD/E Ratio	1.03	1.00	1.06	0.99	0.94	1.21	1.00	0.97	0.95	0.96

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.4%	3.9%	3.3%	3.6%	3.3%	0.7%	7.6%	4.5%	3.5%	2.0%
Return on Equity	6.4%	7.3%	6.3%	6.9%	6.1%	1.4%	15.3%	8.7%	6.6%	3.8%
ROIC	3.5%	4.0%	3.4%	3.7%	3.4%	0.7%	8.0%	4.8%	3.7%	2.1%
Shares Out.	153.5	155.1	157.6	159.6	169.2	170.1	170.2	170.2	170.3	170.4
Revenue/Share	3.53	3.52	3.66	3.78	3.56	3.37	3.66	3.63	3.63	3.93
FCF/Share	1.56	1.53	1.73	1.67	1.52	1.28	1.74	1.67	1.43	1.60

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.