DSR STOCK CARD

12/10/2022

RIOCAN REIT (REI.UN.TO)

Business Model

Riocan Real Estate Investment Trust is a Canadian real estate investment trust which owns, develops, and operates Canada's portfolio of retail-focused, increasingly mixed-use properties. The REIT's property portfolio includes shopping centers and mixed-use developments, with most of its properties located in Ontario, Canada. Riocan's tenants consist of grocery stores, supermarkets, restaurants, cinemas, pharmacies, and corporates. By geography, the company operates in Canada, which generates the majority of total revenue, and in the United States.

The Company in a Nutshell

- Each year, management ensures that 10% of the company's total square footage is up for lease renewal.
- Overall occupancy rates have been over 95% since 2003 and have never fallen below this level since 2005.
- The new dividend (after the cut) appears to be safe for years to come.

Investment Thesis

The REIT boasts an impressive occupancy rate. Over the past couple of years, REI sold non-core assets to concentrate on what they know best. We like management's new focus, and we think it will help build additional value for investors into the future. RioCan can count on solid growth going forward, with 90% of its rents coming from the top 6 markets in Canada (with roughly 50% coming from the Greater Toronto Area). Unfortunately, the REIT must face constant headwinds coming from the retail brick & mortar industry. For this reason, RioCan is pursuing residential urban development projects (80%+ of its current pipeline). This could be an interesting growth direction, but we wonder: will it be enough to compensate for the brick & mortar retail industry's slowdown? In the meantime, recent quarters tell that REI is growing FFO per unit; that's a good start!

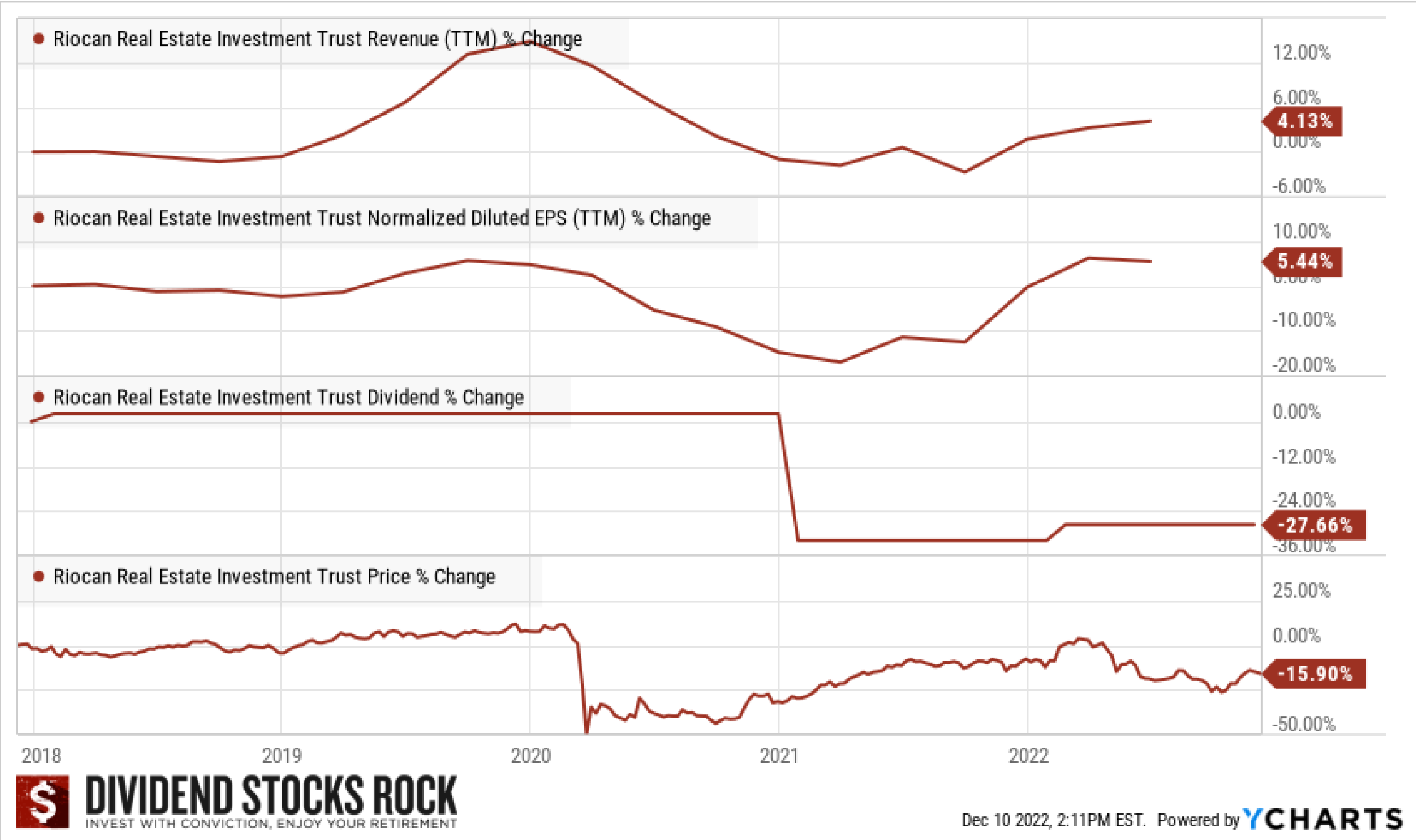
VALUATION

Dividend Growth Rate Years 1-10: 3.00% **Terminal Dividend Growth Rate**: 3.00%

	Discount Rate (Horizontal)		
Margin of Safety	**9.00%**	**10.00%**	**11.00%**
20% Premium	$21.01	$18.01	$15.76
10% Premium	$19.26	$16.51	$14.45
Intrinsic Value	$17.51	**$15.01**	$13.13
10% Discount	$15.76	$13.51	$11.82
20% Discount	$14.01	$12.01	$10.51

DSR STOCK CARD

12/10/2022



Potential Risks

The retail brick & mortar business isn't exactly skyrocketing as of late. The fear of seeing other stores like Target and Sears closing is omnipresent. RioCan will be directly affected by such events. The economy has recovered quickly from the pandemic, but the RioCan stock price has yet to fully recover. Many shopping malls have re-opened, but we are unsure of whether consumers will continue to support them if we enter a recession. Higher interest rates will also put pressure on REI's future projects. RioCan will focus on its projects in the Greater Toronto Area; let's hope they hedge their bets successfully. Since REI is well-diversified, management will surely find a way to navigate these troubled waters.

Dividend Growth Perspective

An investor shouldn't expect much in terms of short-term dividend growth. When calculated using the DDM, we used a 3% dividend growth now that the REIT freed up some cash flow and increased its distribution by 6.25% in 2021. Let's hope that their plans to expand into offices and apartment buildings will be profitable. The FFO payout ratio will be in line, but we expect RioCan to be more prudent with its cash flow going forward. Another distribution increase should be in the books for 2023.