



SLATE RETAIL REIT (SRT.UN.TO)

Business Model

Slate Retail REIT is an unincorporated, open-ended mutual fund trust focused on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate properties in the United States of America with an emphasis on grocery-anchored retail properties. Top 5 states: Florida (15.8%), North Carolina (11.1%), Pennsylvania (11%), Georgia (9.6%) and South Carolina (8.9%).

The Company in a Nutshell

- SRT is a pure play in the grocery industry with 85 retail assets.
- SRT manages nearly 11 million square feet of properties.
- SRT pays its dividend in USD.

Investment Thesis

SRT has found its niche and built a solid business around it. The REIT specializes in grocery-anchored retail properties and shows great geographic and tenants' diversification. SRT deals with major grocers in the US such as Walmart (7.7% of leases), Kroger (6.8%) and Publix (4.1%). With a strong tenant retention and high occupancy rate, this REIT seems well managed. So here's the killer question; why does SRT pay such a high yield? The large debt starts to weigh on SRT's shoulders. There is no free lunch in finance. Check the potential risks section before you get all excited.

VALUATION

Dividend Growth Rate Years 1-10 yr: 2.00%

Terminal Dividend Growth Rate: 2.00%

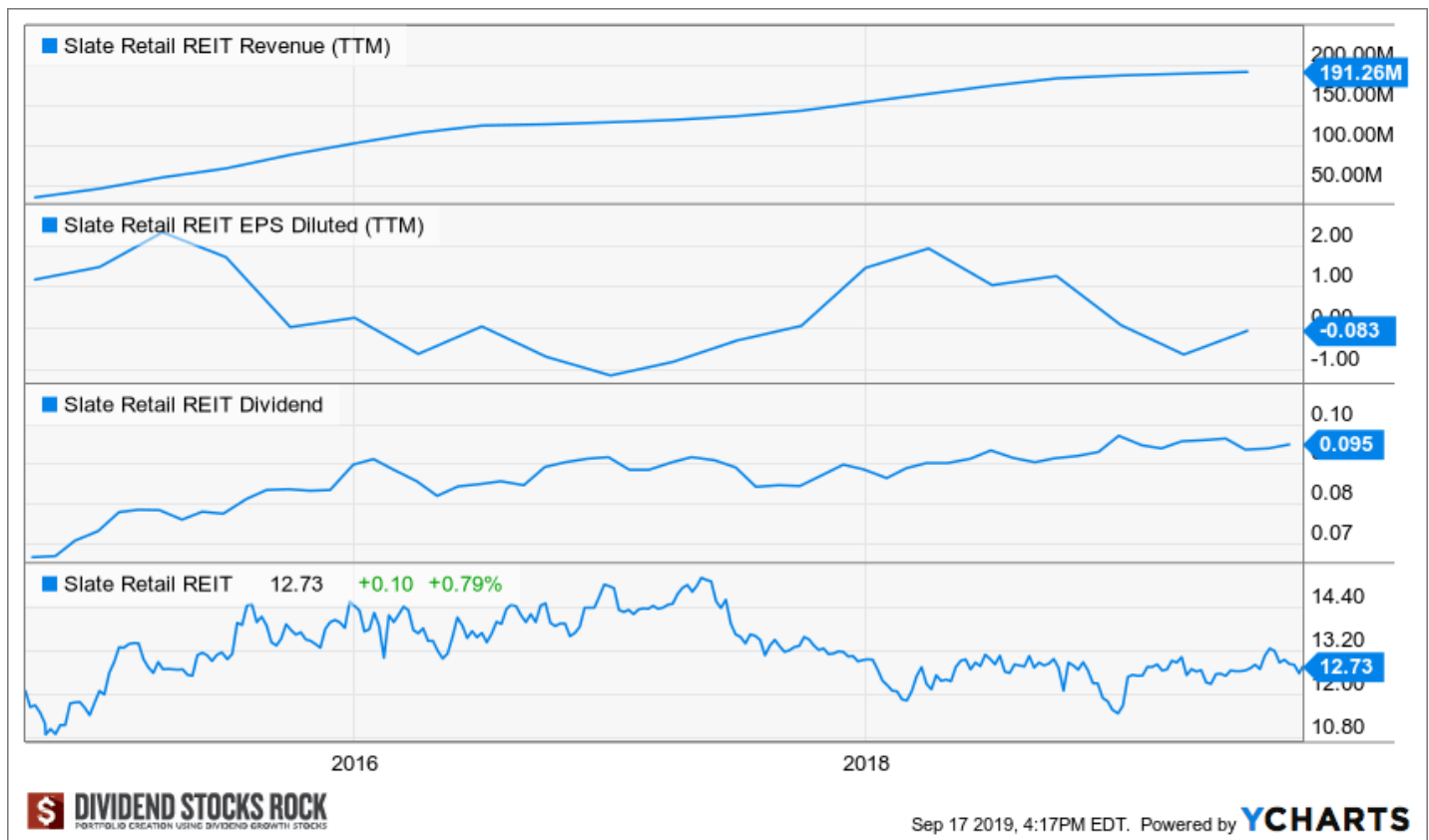
	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$18.69	\$16.35	\$14.54
10% Premium	\$17.13	\$14.99	\$13.32
Intrinsic Value	\$15.57	\$13.63	\$12.11
10% Discount	\$14.02	\$12.26	\$10.90
20% Discount	\$12.46	\$10.90	\$9.69

*DDM is calculated using a 1.25 currency factor on the USD dividend.



DSR STOCK CARD

09/17/2019



Potential Risks

High yielding stocks always come with their share of potential risks. SRT's main risk is probably the fact that debt is growing twice as fast as revenue and funds from operations (FFO and AFFO) started to decrease in 2018. Higher interest payments and maintenance investments are taking money away from shareholders' pockets. The REIT is now buying back units to smooth things up. We concerned that SRT currently looks good because it just surfs on strong economic tailwinds. What will happen during the next recession?

Dividend Growth Perspective

Surprisingly, SRT shows a high yield and a decent dividend growth. The REIT has increased its payout each year since 2015. On top of distributing its dividend monthly, SRT offers USD payments. This sounds like the perfect investment for snowbirds who seek a hedge against currency fluctuations. The 2019* FFO payout ratio stands around 70%. However, when you look at the AFFO payout ratio, you see it at 94.6% for 2019.