

Jul 16, 2021 fool.com

Why The GEO Group Stock Plunged 19.5% in the First Half of 2021 There's a lot of uncertainty at The GEO Group today, but there's one thing that investors know is completely gone at this point.

The bad news really started to pile up in the first half of 2021 for The GEO Group and its shareholders.

What happened: Shares of The GEO Group (NYSE:GEO) fell a painful 19.5% in the first six months of 2021 according to data from S&P Global Market Intelligence. And while the decline was just a continuation of a downtrend trend that started way back in 2017, there were some pretty big developments in the first half of this year that were very material negatives for real estate investment trust (REIT) and dividend-focused investors who own this prison operator. **So what:** Since REITs are designed to be dividend-generating assets, it shouldn't be too surprising that GEO's dividend cut at the end of 2020 was disappointing to investors. But to be followed up with a first-quarter cut in 2021 was clearly even worse. The pain didn't end there, however, as the REIT followed up that second consecutive quarterly cut by eliminating its dividend when it reported first-quarter financial results in early May. Investors often sell shares in the face of dividend cuts. The dividend cuts here, however, are tied to much bigger issues. Notably, the new administration in Washington has directed the U.S. Department of Justice to not renew contracts with for-profit prison operators like The GEO Group. This decision only impacts a portion of the REIT's business, but the tone it sets is decidedly negative and contracts are already being lost. It is not unreasonable to think contracts at other levels of the government could be at risk, too. On top of all of this, The GEO Group has also announced that it is reconsidering its REIT designation. The goal is to conclude a review of its corporate structure by the end of the year. Investors don't like uncertainty and these two issues, both of which are giant black boxes at this point, greatly increase uncertainty. **Now what:** The GEO Group is not a good choice for most investors right now. It is facing business headwinds and considering a major corporate overhaul. With the dividend gone, there's really very little for investors to like here unless you are into turnaround plays. The problem is that the future of this turnaround story is still pretty unclear and that won't begin to change until the board decides if it wants to be a REIT or not. All in, it's hardly shocking that investors are downbeat on The GEO Group right now.