Smart REIT: A Perfect Boring Stock for Today's Tumultuous Times

Description

The TSX Composite Index is in the red again, falling some 1.5% during early trading on Monday.

Although stocks have rallied off lows experienced in the middle of January, most Canadian stocks are hardly out of the woods yet. We're still down some 12% over the last six months and 17% over the last year.

Many investors have experienced even bigger losses as their portfolios were stuffed with energy and commodity names. These previously stable names have led the big decline in Canadian stocks as investors head far away from anything related to basic materials.

Naturally, many investors now seek stability. They're tired of owning stocks that move so aggressively, but at the same time they want potential for capital gains over the long term. There are a select few stocks in Canada that have both criteria, but they certainly exist.

Smart REIT (TSX:SRU.UN) is one such stock. Here's the argument for adding it to your portfolio today.

Great assets

Smart REIT was formed in 2015 when Calloway REIT acquired SmartCentres. Together, the two companies have a portfolio of nearly 31 million square feet over 147 different locations. The REIT primarily owns retail space, but also got some some residential and office building assets in the big acquisition.

Smart REIT is a young company, at least in REIT terms. It has developed most of its property from scratch, meaning it has the youngest average age in the sector, coming in at approximately 12 years. This translates into low capital expenditures and high occupancy because tenants like being in new buildings.

The other thing Smart has going for it is its tenant of choice. Smart has 138 different retail properties, and **Wal-Mart** is the anchor tenant for 100 of those locations. At first glance, this arrangement might seem like the classic sin of having too many eggs in one basket, but the Wal-Mart partnership is a great idea for a few different reasons.

Wal-Mart attracts foot traffic. This brings in other retailers, even ones that compete with the behemoth from Arkansas. This traffic also attracts other types of tenants, like real estate companies and various kinds of medical practitioners. This tenant flexibility keeps space full. Current occupancy is 98.7%, and occupancy hasn't dipped below 98% in a decade.

Wal-Mart itself is a good tenant. The company continues to expand in Canada and rarely closes down stores. It's also in the process of turning many of its smaller, older stores into larger Supercenters, which gives expansion opportunities for its developer of choice, Smart.

Great yield

In the REIT sector today in Canada, it's very possible for investors to get yields between 6% and 8%, with even higher dividends available for someone willing to take a little risk. So why should you be excited about Smart REIT's 5.4% yield?

The reason is simple–it's rock solid. As of its most recent quarter Smart posted a payout ratio based on adjusted funds from operations of just 77%, which is one of the lowest in the whole sector.

Plus, investors are getting decent dividend growth as well. At the beginning of 2014 the company paid an annual distribution of $1.55 per share. After its most recent dividend increase back in October, Smart's payout is now $1.65 per share. An increase of just over 3% per year isn't bad for a company that already pays in excess of 5%.

Smart has several big development projects in the pipeline and has plans to increase its footprint by 4.9 million square feet in the upcoming years, a 16% increase. That, combined with the company's highly sought after properties that deliver consistent rental increases, should ensure an annual dividend increase for years to come.

And for investors who are sick of dealing with volatility, Smart has been a very steady performer. Including dividends, shares are up approximately 5.7% over the last year, while the TSX Composite is down nearly 17%. Which would you rather own during uncertain times?

Smart REIT might not be the most exciting company out there, but its unique combination of a great yield, solid growth potential, and fantastic assets make it a buy–no matter how the overall market performs. Its steady stock price is just icing on the cake.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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