



## Sleep Well at Night by Owning RioCan Real Estate Investment Trust

### Description

Thus far in 2016, stock markets have been pretty volatile.

The first couple of weeks in January were terrible with the TSX Composite Index falling nearly 10% as fears that crude's newest collapse would tank the Canadian economy. Canada's benchmark stock index closed at 11,483 on January 20, setting lows for the year.

It's been a much nicer result for investors in the time since then. Stocks have recovered nicely with the TSX Composite closing on Monday at 12,900. Thanks to this recovery, the index is now pretty much flat over the year.

Individual stocks have been even more volatile. Certain oil stocks have fallen and then surged as much as 50% as investors essentially bet on their solvency. In fact, just about every stock associated with Alberta did poorly when the market languished and recovered nicely when investors turned bullish again.

All this volatility isn't bad for someone looking to buy quality businesses at reasonable prices over a long-term time horizon. But for a retiree, it can be pretty stressful, which is why I'd recommend a more boring portfolio that is stuffed with Canada's top dividend-paying stocks.

**RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) would be a big position in such a portfolio. Here's why.

### Low beta

Beta is a number investors use to measure a volatility of a stock.

The general stock market has a beta of one. A stock with a beta higher than one is deemed to be more volatile than the market, and a stock with a beta of less than one moves less than the overall market.

RioCan has a beta of 0.65, which means it is about 35% less volatile than the TSX Composite. I'd be willing to bet that number has gone up over the last year as the stock reacted to the fears of higher

interest rates. REITs tend to trade on interest rate expectations, and RioCan is no exception.

## Great dividend

RioCan certainly doesn't have the highest payout of the sector. In fact, its dividend is actually one of the lowest out there.

It's still a pretty solid yield, coming in at 5.5%. That kills the yield on most fixed-income products, especially government bonds and GICs.

With income like that, a stock doesn't need much dividend growth. Still, there's an argument to be made that RioCan could hike its dividend in 2016 for the first time since 2013.

## Terrific results

In its latest quarter, RioCan reported funds from operations that grew 9.8% compared with the same quarter last year.

Much of that improvement came from the stock's U.S. portfolio. The economy down south is doing well, which led to increased occupancy and higher rents. Converting results back to Canadian dollars was helped by the weakness in our currency.

In the quarter RioCan announced it was selling its U.S. portfolio to part of **Blackstone Group** for US\$1.9 billion. That works out to \$2.7 billion in local currency, a gain of \$930 million over the original cost in less than six years.

Some of the \$930 million has already been spent; the company bought out an interest in 23 properties it co-owned with a U.S. developer. It also intends to spend that cash on its redevelopment program and to pay down some debt.

Once RioCan is done investing the cash received from the U.S. sale, funds from operations could go up anywhere from 5% to 10%. Add in further rent increases to existing customers and the company finally getting the real estate formerly filled by **Target** fully leased again, and it's easy to envision a slight increase in the company's dividend in 2016.

When it comes to Canadian REITs, investors could do a whole lot worse than RioCan. The company offers a great dividend, attractive growth possibilities, and a CEO who is considered to be one of the best in the business. Perhaps best of all, RioCan is boring enough to be considered a fixed-income alternative. These factors make RioCan very attractive for folks looking for income without volatility.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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