Let’s Make a Deal: 3 Stocks for the Price of 1

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) closed trading June 8 at $79.80. Currently, you can buy Canada’s biggest bank stock for 12 times earnings. Not only do you get a Big Six Canadian bank at a reasonable price, but you also get a generous dividend yield of 4.1%.

It’s hard to say no to that kind of opportunity. However, before you pull the trigger on this particular bank stock, you might want to consider an alternative strategy that would give you three stocks for the price of one.

Power Corporation of Canada (TSX:POW): $29.21

You’d have to live under a rock to not be familiar with Power Corporation and its various majority-owned financial entities. Through its 65.6% stake in **Power Financial Corporation** (TSX:PWF), it holds a majority interest in several insurance companies and financial-related businesses in Canada and elsewhere. In addition, it has interests in energy, communications, real estate, etc.

Together, this conglomerate of businesses generated $1.8 billion in net profits in 2015 on $38.3 billion in revenue. In May, it announced its first-quarter earnings, which included a 7.6% increase in its quarterly dividend to 33.50 cents per share. As a result, its stock is currently yielding 4.6%, 50 basis points better than Royal Bank.

Now, I know Power’s performance hasn’t come close to matching Royal Bank’s numbers over the past decade, and year-to-date it’s trailing the bank by 661 basis points through June 8, but eventually Power stock is going to come alive, and until then you’re getting paid almost 5% to wait.

There are two possible lightning rods for growth: in February it gained majority control of Toronto-based robo-advisor Wealth Simple, and Mackenzie Financial has gotten into the ETF game, which is what robo-advisors use to construct their automated portfolios.

H&R Real Estate Investment Trust (TSX:HR.UN): $22.11

These guys own office, retail, industrial, and residential properties valued at $13 billion and comprising over 47 million square feet of gross leasable area, along with a 33.6% interest in Echo Realty, a private U.S. REIT focused around Giant Eagle grocery store properties. Interestingly, those supermarkets average more than $600 per square foot, which is on par with Publix and other respectable chains in the U.S.

The second-largest REIT in Canada, one of its 39 notable office properties is the Scotia Plaza in Toronto. However, its biggest accomplishment is yet to come. In 2014 it acquired a 50% interest in a luxury residential rental development in Long Island City, New York. Zoned for 1.3 million square feetof mixed-use development, it will accommodate up to 1,871 rental units and 15,000 square feet ofretail. Occupancy is expected by the end of 2017. The total cost of the project is US$1.2 billion.

Currently yielding 6.1%, Fool contributor Kay Ng rightly points out its stock is not without risk, given that 28% of its assets are in Alberta, a province that is still coping with the negative effects of low oil prices. That said, when it comes to REITs, you can't do much better than this.

Inter Pipeline Ltd. (TSX:IPL): $27.76

Out of the frying pan and into the fire.

After previously discussing the risks inherent in an Alberta-dependent company I come right back and recommend a Calgary-based oil infrastructure business that has operations in pipelines, conventional and oil sands, natural gas liquids extraction, and bulk oil storage.

Call me crazy, but in order to meet my criteria, including being within $5 of $79.80, I needed a third stock trading around $28; Inter Pipeline fits the bill. However, look more closely at the company's operations, and investors should like what they see.

Its current payout is 74.6% of its funds from operations, 690 basis points lower than in the first quarter of 2014–its highest payout over the past eight quarters. The $131 million in dividends paid out to shareholders in the first quarter translates into a current yield of 5.6%. With Q1 2016 FFO of $186 million, a 5% increase year over year, there's almost zero chance of the dividend being cut.

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washworth