



Smart REIT: A Smart Pick for Income Investors

Description

If you're an income investor with a cash windfall that you're ready to put to work in the market, then you've come to the right place.

Let's take a closer look at why **Smart REIT** ([TSX:SRU.UN](#)) would be a great addition to your portfolio.

One of the best property portfolios in Canada

Smart REIT is one of Canada's largest owners and managers of commercial real estate. Its portfolio consists of 141 shopping centres, one office building, and eight development properties comprising of approximately 31.3 million square feet located across all 10 provinces.

It may not have the largest property portfolio in the industry, but Smart REIT does have one of the highest-quality portfolios for two primary reasons. First, the majority of its properties are located in Ontario, Quebec, and British Columbia, which are Canada's fastest-growing provinces. Second, national retailers, including **Walmart**, **Canadian Tire**, **Winners**, **Reitmans**, **Best Buy**, **Loblaw**, **Shoppers Drug Mart**, and **Sobeys**, anchor over 90% of its properties.

A high-quality portfolio leads to high-quality earnings

Smart REIT has posted very strong earnings results over the last few years, and its success has continued in 2016. Here's a quick summary of five of the most notable statistics from the first half of 2016 compared with the first half of 2015:

1. Rental revenue increased 14.9% \$366.93 million
2. Net operating income increased 16.1% to \$241.16 million
3. Adjusted funds from operations (AFFO) increased 22.4% to \$167.03 million
4. AFFO per diluted unit increased 11.3% to \$1.08
5. Occupancy declined 40 basis points, but remained very high at 98.2%

A high, reliable, and growing distribution

Smart REIT's strong AFFO generation allows it to pay a monthly distribution of \$0.1375 per unit, representing \$1.65 per unit on an annualized basis, and this gives its stock a high yield of about 4.5% at today's levels. This yield is safe when you consider that its AFFO totaled \$167.03 million and its distributions totaled just \$128.27 million in the first half of the year, resulting in a 76.8% payout ratio, which is below its target range of 77-82%.

Since its payout ratio fell below its target range for its three- and six-month periods ended on June 30, Smart REIT announced a 3% increase to its distribution to \$0.1417 per unit, representing \$1.70 per unit on an annualized basis, and this is effective for its October distribution. This means investors will receive of monthly distribution of \$0.1375 per unit for the months of August and September, and the rate will then go up to \$0.1417 per unit beginning in October. Factoring in the increase, its stock would have a yield of about 4.65% today.

Investors must also note that Smart REIT has raised its annual distribution for two consecutive years, and its two hikes since the start of 2015, including the one that will occur later this year, have it on pace for 2016 to mark the third consecutive year with an increase. I think its consistent AFFO growth could allow this streak to continue for the next several years, making it both a high-yield and distribution-growth play in my book.

Is there a place for Smart REIT in your portfolio?

Smart REIT is one of the best income stocks the market has to offer, so take a closer look and strongly consider making it a core holding in your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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

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