Income Seekers: With a 5.5% Yield, Smart REIT Is a Steal

Description

I've been a **Smart REIT** (TSX:SRU.UN) bull for years.

There's a lot to like about the company, beginning with its association with **Wal-Mart Stores, Inc.** (NYSE:WMT). It has become Wal-Mart's developer of choice in Canada; it owns 94 locations that are anchored or shadow-anchored by the world's largest retailer. The behemoth from Arkansas accounts for nearly 27% of Smart's total revenue.

Many REITs with that kind of exposure to one tenant tend to sell at a discount, primarily because having so many eggs inside of one basket is frowned upon. But with Smart REIT, it's actually a plus. Anchor tenants don't get much safer than Wal-Mart.

Proximity to Wal-Mart is actually a positive for most other retailers, even those that are direct competitors. Wal-Mart brings in foot traffic. These shoppers then check out other stores. Combine that with Smart's new real estate–the trust's average building is barely a decade old–and you have a company with a lot of attractive space for tenants. Occupancy is currently above 98%, which higher than its peers.

There's also the possibility of Smart beginning to acquire locations in Canada that Wal-Mart already owns. Wal-Mart, like many other retailers, could decide it wants out of the property ownership business. It would free up more capital that the retailer could use to open more stores or just send back to shareholders.

There's just been one problem with being bullish on Smart REIT: shares have traditionally been pretty expensive. It's enough to give any value investor fits.

That has changed.

The opportunity today

Smart shares are down nearly 20% since peaking back in July and August, falling from more than $38 each to current levels just above $31.

There's one reason for this decline: interest rates.

Nothing else has changed. In fact, it's easy to argue that Smart is in better shape today than it was in the summer. It has announced it will develop a number of different residential projects in both Ontario and Quebec and is adding an office tower to one of its flagship properties in Vaughn, Ontario. It also paid $62 million for nearly 400,000 square feet of mixed-use property in Pointe Claire, Quebec–a deal expected to immediately add to the bottom line.

Earnings have been rock solid too. Funds from operations were $260 million in the first three quarters of 2016 versus $229 million in the same period last year. That's a 13.5% increase.

Smart is on pace to generate $2.23 per share in funds from operations in 2016, putting shares at just 14 times the metric many investors use as REIT earnings. Where else can you find a company with the kind of assets (and history) as Smart trading at such a low valuation, especially in today's market?

Paid to wait

One of the nice things about owning REITs is that investors are paid quite handsomely to wait.

Smart currently pays investors a 5.5% dividend. It has only offered a yield this high for a small amount of time this year. It sounds like a good buying opportunity to me.

We don't have to worry about the payout, either. After recently hiking its monthly distribution, Smart pays out $1.70 per share each year. If it can generate $2.23 per share in funds from operations, that gives it a payout ratio of just 76%. I consider anything under 80% to be rock solid.

The bottom line

After shares have sold off nearly 20%, it's easy to make the case to buy Smart REIT. Investors are getting one of Canada's finest REITs at a pretty nice price. It has plenty of growth potential, and it pays a dividend of 5.5%–a full 200% higher than current 10-year Government of Canada bond yields.

These kinds of buying opportunities don't come around often. Take advantage of this one before it's too late.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/08/26
Date Created
2016/12/15
Author
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