1 Overlooked Stock to Buy With a 6% Dividend Yield

Description

Dividend stocks are a great way to supplement your income, but finding high-yield value stocks isn't easy anymore after the market's recent rally. However, some stocks will always fly under the radar, and you could get lucky if you can find one. **H&R Real Estate Investment Trust** (TSX:HR.UN), a diversified REIT yielding a healthy 6.3%, is one such stock you can't overlook.

H&R's Alberta woes aren't as bad as you think

H&R's stock has given up roughly 5% in the past six months, partly because of its exposure to Alberta. I don't blame investors, though, as almost 17% of H&R's same-asset property operating income comes from tenants in Alberta. However, H&R has more pros than cons going for it now.

Take H&R's occupancy rates, for example. The past couple of years were the toughest as plummeting oil prices stalled activity in Alberta. Yet H&R's occupancy rate remains above 95%, and its record is mind-boggling.

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H&R's largest tenant with 12% contribution to its rental income, **Encana Corp.**, just bumped up its production and corporate margin forecasts for 2017 and 2018, placing the company on track to exceed its growth targets set for 2021.

Of course, H&R may not see the benefits just yet, but with drillers like Encana slowly getting back into the game, there's a reason to believe the worst may be over. Also, H&R's average remaining lease term in Alberta is 17 years, and Encana's lease stretches to 21 years. That's a really long time and provides a strong security cushion for H&R.

H&R's dividends can also ride a rising interest rate environment

The other factor perturbing investors is rising bond yields in the U.S. and the anticipation of higher interest rates, which could mean higher borrowing costs and lower profits for REITs. However, while

I’ve already outlined H&R’s solid occupancy rates and lease terms, its diversity is another competitive advantage that should help it offset pockets of weakness, if any.

H&R’s portfolio comprises 38 office, 156 retail, 102 industrials, and 10 residential properties aside from some projects under development that are spread across North America. The company also holds 33.6% stake in ECHO Realty LP, which has 209 properties. Thanks to this diversity, H&R’s funds from operations more than doubled in the past decade.

In fact, strong FFO trends encouraged H&R to raise its monthly dividend by 2% last quarter. That might seem insignificant, but the increase comes after three years, reflecting management’s growing confidence in the business. H&R raised its dividend aggressively before 2013 — a trend we could soon see again in coming years.

This dividend is poised to grow

During its last earnings call, H&R management expressed confidence in growing its cash flows and dividends further in coming years. With its FFO payout ratio under 70%, there’s enough room for the company to raise its dividends going forward. With the stock trading at a price-to-book value of under one, you can easily bank on this 6.3% dividend yield today.

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