A PIRET With Nothing to Plunder!

Description

"Measure twice; cut once" is a great way to approach investing in common stocks. In 2016, I had the opportunity to look at over 100 different securities, yet I made significantly fewer purchases. When it comes to investing, the excitement of logging into your account or calling the advisor to execute the transaction is only a very minor part of the entire process.

Thorough research and analysis of a security can take many hours that are spread out over a number of days or weeks. In certain exceptional circumstances, the work is done months or even years apart. The fundamentals of an excellent company don't go out of style.

Pure Industrial Real Estate Trust (TSX:AAR.UN), known as PIRET for short, first crossed my radar screen several years ago at a price of under $4.50 per share. At the time, it was an incredible buy, trading at approximately 80% of tangible book value and yielding in excess of 7%. It was a fantastic buy which did very well for investors who chose to take the leap.

As is the case with most REITs (real estate investment trusts), it is preferable to purchase shares at a discount to tangible book value and yield in excess of 6%. These metrics often signal a juicy yield for investors who want it in addition to the potential for capital appreciation. Buying shares at a value in excess of tangible book value may not be a bad approach to obtaining yield, but, as it happens much too often, the potential for a capital loss is often the result investors leave the party with.

At a current price of approximately $5.50, shares are yielding a little more than 5.5% and trading at a 3% premium to tangible book value. Basically, shares are completely fairly valued with more downside than upside at this point. In the past year, the company did an equity offering to raise money to expand into more industrial property, which will take time to build and begin generating rents for the company and shareholders.

Looking down the road, the current yield of 5.5% is enough to keep this security at the top of my watch list, but it will take a pullback in order to make me jump in head first.

The monthly dividend of $0.026 per unit works out to an annualized dividend of $0.312, which, at a share price of $5.50, translates to a yield of 5.6%. At a price of $5, the yield is 6.24%, while very patient (and lucky) investors who buy at a$4.50 will receive a yield of almost 7%. It stands to reason, the lower the purchase price, the higher the dividend yield, and the greater the chance for capital appreciation.

Let’s not forget, it’s not always the pirate who plunders. At a price of $4.50, investors will be the ones plundering!

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ryangoldsman