



Beef Up Your Portfolio With These 2 High-Quality REITs

Description

Many income investors are looking to give themselves a raise by buying REITs that offer huge yields, but it's important that these REITs are of high quality to ensure dividend raises are consistently rewarded.

In most cases, an extremely high dividend yield could mean there's a higher amount of risk associated with an investment. If the free cash flow payout ratio is high and there have been multiple dividend cuts over the last decade, then there's usually a high risk of a dividend cut and a lower chance that the dividend will be raised by a substantial amount over the short term.

Here are two high-quality stocks that income investors can buy to give themselves a raise.

Killam Apartment REIT ([TSX:KMP.UN](#))

Killam REIT is a terrific residential play that offers investors a 4.71% dividend yield at current levels. The company owns, develops, and manages residential properties across Canada with a majority of its assets on the Atlantic coast.

The management team is focused on growing its revenue, while improving operational efficiency through many expense-management initiatives. The company has a strong development pipeline over the next few years that's expected to drive free cash flow, which will go back into the wallets of shareholders through future dividend increases.

The company has a sustainable free cash flow payout ratio which will only improve over the next few years as the management team drives profitability through its initiatives.

Boardwalk REIT ([TSX:BEI.UN](#))

Boardwalk REIT has been in a house of pain for over two years as the stock plummeted a whopping 36% from its October 2014 high. The stock now yields a fat 4.93% which appears to be safe at current levels.

The company has about 60% of its units in Alberta, which has been a very weak market following the oil rout, but I believe the weakness in the Albertan economy represents a buying opportunity for long-term income investors. The company has low debt, and the stock is just too cheap to ignore at current levels.

The stock trades at 0.7 price-to-book and 14.2 price-to-cash flow multiples, both of which are lower than the company's five-year historical average multiples of 0.9 and 16.8, respectively. The dividend is over 1% more than what it usually is at 3.7%, but I believe the free cash flow payout ratio will be enough to sustain the dividend until the company rebounds over the next few years.

Takeaway

Both of these REITs are a terrific balance between high yield and high quality. If you're an income investor with a long-term time horizon, then pick up shares and hold on to them patiently over the next decade while you collect the bountiful dividends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:KMP.UN (Killam Apartment REIT)

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