Investors: Buy This 7.9% Yielder Instead of Canopy Growth Corp.

Description

Many investors are incredibly bullish on the marijuana industry in Canada and are clamouring to get in before pot is officially made legal. The official decision is expected to come sometime this spring, likely in April.

But there are a few problems, especially for dividend investors. We'll use **Canopy Growth Corp.** (TSX:WEED) as an example because it's the largest marijuana company in Canada. Canopy's peers are facing similar issues.

Canopy just released quarterly results that showed the company is a long way from serious profitability. It delivered a profit of $0.05 per share which was buoyed entirely by what it calls "unrealized gains on changes in fair value of biological assets."

It's likely Canopy won't be seriously profitable for years — possibly even longer. A company at its stage of development should be spending on future growth, not giving back to shareholders. It's silly to send dividends out the door when the company is in a desperate attempt to gain market share.

Besides, there's a better way for dividend investors to play the marijuana industry. Instead of investing in weed itself, look at companies that have plenty of real estate — property which can be leased out to marijuana growers.

Enter industrial REITs

Industrial REITs are poised to be the default landlords for marijuana growers.

The relationship makes sense from both sides. A warehouse is the perfect place to grow marijuana. It's a controlled environment that can easily be adapted. And the last thing a company like Canopy wants to do is spend the capital needed to buy its own real estate. That hinders growth.

Canada's top industrial REITs have plenty of locations close to major centres, which will help growers attract competent staff. And with the retail sector continuing to struggle, warehouses previously occupied by retail distribution centres will start to open.

Dream Industrial Real Estate Invest Trst (TSX:DIR.UN) is one of Canada's largest industrial REITs. It owns 217 different properties which collectively have 16.6 million square feet of gross leasable space. The company's tenant base is quite diversified with the largest tenant contributing just 3.9% of Dream's top line. Additionally, its Alberta portfolio is 97% leased and is performing much better than expected.

Dream Industrial has a portfolio occupancy rate of just over 94%, which is solid. And, according to a recent investors' presentation, shares trade at 23% under net asset value and under 10 times trailing adjusted funds from operations. Shares have rallied since that presentation was published, but they're still relatively cheap.

The company also pays an incredibly attractive distribution, which currently sits at 7.9%. The payout is sustainable too with the payout ratio just 86% of adjusted funds from operations in the latest quarter.

One area Dream Industrial would likely be pushing for marijuana growers is Halifax. It has 2.8 million square feet worth of leasable area in and around the city, with an occupancy rate of just 86%. Halifax also offers growers easy access to export markets in Europe, reasonable rents, and it's a big city with plenty of labour.

Pure Industrial

Another industrial REIT that is poised to capture some of this business is **Pure Industrial Real Estate Trust** (TSX:AAR.UN), which is about twice as big as Dream Industrial.

Kevan Gorrie, Pure Industrial's CEO, has already indicated that his company will aggressively court marijuana growers as well as leaders in e-commerce. He told *Bloomberg News*, "I don't think enough companies worry about obsolescence. We worry about it all the time."

There's just one issue regarding Pure Industrial versus Dream Industrial.

Pure Industrial has a dividend yield of 5.3%. While that certainly isn't bad, it's far below Dream's 7.9% yield. This is somewhat mitigated by a few different factors — including Pure Industrial's better balance sheet and slightly lower payout ratio — but those don't account for the whole difference in yield.

The bottom line

Canada's industrial REITs aren't a pure way to get exposure to the marijuana industry, but they don't have to be to succeed. All they really need is for pot growers to pick up some of the slack in their portfolios. In the meantime, investors can sit back, relax, and pocket some of the best dividends around.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DIR.UN (Dream Industrial REIT)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/07
Date Created
2017/02/21
Author
nelsonpsmith