



Should Investors Buy This 10% Yield Now?

Description

As Foolish investors know, exposure to the real estate industry is needed in every portfolio. It's a proven wealth builder, and many REITs provide steady dividend yields to investors.

However, the dividend yields can range significantly; some REITs produce yields above 10%. With the stock market providing annual average returns in the range of 8-10%, can investors obtain superior returns by having a stock that pays out 10% with a chance of capital appreciation?

Cominar REIT (TSX:CUF.UN) is a REIT that's a part of the 10% yield club; however, does it belong in your portfolio?

Here's a closer look at the company.

Management's focus

The company owns and operates over 500 commercial properties throughout Canada with over \$8.3 billion in assets. In 2016, management made efforts to reduce the company's debt levels after significant acquisitions in 2014. The company achieved this goal by bringing its debt ratio to 0.52, which is close to its debt ratio of 0.51 in 2013.

Now management is shifting its focus to improving its occupancy rates and financial results. The company currently has an occupancy rate of 92.4% which is significantly lower than some of the other large REITs in the market. However, this also indicates that there is room for improvement regarding the company's current cash flows.

Is the yield safe?

Although the company hasn't cut its dividend in the past seven years, the company's payout ratio is now above 100%. In addition, the funds from operations per share have started to decline since the company's expansion in 2014. Therefore, unless Cominar can increase its occupancy rates, it may struggle to service its dividend yield in the future.

Foolish bottom line

Until Cominar can improve its cash flows and increase its occupancy rates, I would suggest refraining from adding this stock to your portfolio. A high dividend yield is not a shortcut to accelerating returns, and investors are better off investing in companies with more conservative yields and potential for growth.

Building wealth takes time and patience, and there are no shortcuts. Therefore, investors should focus on adding fantastic companies with long-term prospects rather than chasing high yields.

Fool on!

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