3 Undervalued Stocks for Income-Seeking Investors

Description

Reinvesting dividends is a time-tested method of building wealth. Income-seeking investors understand the power of compounding interest and its benefit over the long term. One industry that income-seeking investors frequently look to is the real estate industry. Many REITs provide steady dividend yields to investors, creating a safe investment vehicle for long-term growth.

Killam Apartment REIT (TSX:KMP.UN), **Granite Real Estate Investment Trust** (TSX:GRT.UN), **Allied Properties Real Estate Investment** (TSX:AP.UN) are three REITs that provide reliable dividends and exposure to different sectors of the real estate industry.

Here's a look at all three companies.

Killam

Killam owns and operates residential properties across Canada. With the majority of its properties in the Atlantic provinces, the company is shifting its focus to expand in Ontario and build a larger presence out west. If the company can replicate its performance on the east coast throughout Canada, the company will be well positioned for long-term success.

In addition, the stock is undervalued. Its price-to-earnings ratio and price-to-free cash flow are currently trading at 12.8 and 29.2, respectively, which is well below its five-year average of 16.5 and 41.9. Therefore, investors can acquire a stock with a dividend yield of 4.8% at a discount.

Granite

Granite owns and operates $2.7 billion in industrial buildings throughout Europe and North America. The company currently boasts an occupancy rate of 99% for its entire portfolio, allowing the company to generate strong cash flows and provide a generous yield of 5.4%.

Granite's largest tenant is **Magna International Inc.**, which represents 73% of the company's annualized lease payments. One may argue that having such a large portion of cash flow tied to one tenant is a red flag; however, I believe the largest auto-parts supplier in the world won't stop paying its rent anytime soon.

From a valuation perspective, the stock currently has a price-to-earnings ratio of 7.7, which is well below the industry average of 14. Therefore, investors aren't overpaying for a stock with a great yield and growth potential.

Allied

Allied owns and operates high-quality office properties throughout Canada. Over the past seven years, the company has increased its funds from operations on an annual average of 16.7%. Therefore, with growing cash flows and a payout ratio of 37%, the company should be able grow its current yield of

4.06%.

The stock currently has a price-to-earnings ratio and price-to-book ratio of 9.3 and 1.06, respectively. Both of these key metrics are below the five-year averages of 10.3 and 1.2, indicating that investors can acquire the stock at a bargain price. In addition, the company boasts a beta of 0.29. Therefore, if a market correction occurs in the near future, the stock price shouldn't take a significant hit.

Foolish bottom line

All of the companies mentioned above offer sustainable yields that have room to grow; however, the real attraction is the stocks' valuations. By acquiring stocks at a discount, there is a greater chance of benefiting from capital appreciation once the stocks' value catches up to their earnings. Therefore, Foolish investors could realize significant returns by buying and holding these stocks.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)
3. TSX:KMP.UN (Killam Apartment REIT)

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