Boost Your Income With This Massive 8.63% Yield Today

Description

It is usually the case that the higher the dividend yield goes, the higher the risk that it may not be sustainable in the future. However, there are always some exceptions.

American Hotel Income Properties REIT LP (TSX:HOT.UN), or AHIP, is offering a compelling investment opportunity today.

AHIP invests in hotel real estate properties primarily in the United States. It operates in two segments: Rail Hotels and Branded Hotels. Its relatively young and growing property portfolio currently boasts of 9,383 guestrooms in 95 hotels across 80 cities in the United States.

The entity recently announced an acquisition of 18 premium-branded Marriott and Hilton hotels containing 2,187 guestrooms located in Maryland, New Jersey, New York, Connecticut, and Pennsylvania for approximately US$407.4 million; its portfolio will grow to 113 hotel properties and boost the number of rooms to 11,570 as the deal closes end of June 2017.

Currently trading at $10.13, and with a consistent monthly dividend of US$0.054, the units offer a good 8.63% yield.

With the expected sustained growth in the United States's economy over the next few years, the hospitality sector down south is expected to enjoy some reasonable growth as hotel occupancy rates and individual travel respond positively to growing individual incomes and personal spending.

The latest acquisition of new hotels is likely to further boost AHIP's earning power and cash flow generation going forward, and the properties are being purchased at below replacement cost.

AHIP enjoys significant business from the railroad industry. As the U.S freight and rail industry continues on a recovery path, as evidenced by the reported 6.4% increase in cumulative railroad carloads in the first 18 weeks of 2017, the entity is likely to report growing revenues in the coming quarters.

Most noteworthy, AHIP has a guaranteed 72% room revenue in the railroad segment. It enters longterm contracts with an average term of 4.3 years with rail operators. This minimum revenue guarantee stabilizes cash flow and any unused rooms are sold to other guests at even higher rates.

To further cement the high railroad patronage, AHIP has committed to a $2 million capital-reinvestment initiative to secure rail crew contract renewals and extensions. It also invested in an integrated e-commerce platform and web presence to drive online bookings.

How safe is the dividend?

AHIP had an adjusted-funds-from-operations (AFFO) payout ratio of about 96.6% for the first quarter of 2017. Its distribution is relatively safer compared to some REITs, whose payouts hover around 100% and beyond today.

The annual AFFO payout has declined from 100.2% in 2014 to 83.4% for full year 2016. Payout ratios are likely to further improve as properties begin to generate higher cash flows during the seasonally strong second and third quarters of the year.

Lower payout ratios provide a higher capacity for AHIP to sustain its monthly distributions. Aided by the long-duration rail contracts that significantly cover distributions, the distribution is not likely to be cut any time soon.

Moreover, AHIP has low leverage and boasts of a 100% fixed-rate debt with no exposure to mortgage and interest rate fluctuations. It has no significant debt maturities until early 2023, so it has the time to accumulate funds for debt repayments.

I find an AHIP investment a safe income bet for probably the next three to five years.

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