



## Should You Buy This Unloved, High-Yield Stock Right Now?

### Description

**American Hotel Income Properties REIT LP** ([TSX:HOT.UN](#)) shares just hit its 52-week low before recovering somewhat near the market close on Wednesday. The shares have been under pressure for nearly a month now.

During that time, news included Mr. Minaz Abji being elected to its board of directors. Mr. Abji has extensive experience and expertise in the hotel industry, particularly in global hotel operations, asset management, corporate finance, real estate investment and value enhancement.

At **Host Hotels and Resorts**, the largest hotel REIT in the world with an enterprise value of about US\$17 billion, Mr. Abji served as the executive vice president of asset management for 13 years and is currently a senior advisor there.

### Large acquisition

At the end of May, American Hotel announced that it will acquire 18 hotels for US\$407.4 million to expand its branded portfolio in the northeast part of the United States. This is a rather large acquisition for the company, which only has a market cap of about \$775 million (~US\$581 million).

The acquisition is expected to close by the end of the month. It will boost American Hotel's number of guestrooms by 23% to 11,570, its number of hotels by nearly 19% to 113, and the revenue of its branded portfolio from 74% to 80%. And it'll generate about 20% of its revenue from its rail portfolio after the acquisition.



The transaction will be immediately accretive to its adjusted funds from operations per unit, which will make its current distribution safer than it was before.

The drag on the shares probably had to do with the fact that American Hotel completed a bought deal and convertible debentures in early June, which raised gross proceeds of \$200.9 million and \$48.9 million, respectively.

This fundraising is viewed as dilutive to current shareholders. However, some of the proceeds will go to the large acquisition mentioned earlier, which will be accretive on a per-share basis.

### **Investor takeaway**

American Hotel offers a U.S. dollar-denominated distribution. So, its effective yield will fluctuate with the change in foreign exchange between the U.S. dollar and the Canadian dollar.

The bought deal was completed at \$10.35 per share; American Hotel shares closed at \$9.96 per share, which is a 3.7% discount from the bought deal price. Now is a good opportunity to get a high yield of about 8.6% from American Hotel for investors looking for income.

Interested investors should consider owning the shares in an RRSP or RRIF because the company's distribution can consist of U.S. dividends, which would be taxed at a 15% withholding tax in a TFSA and at your marginal income tax rate in a non-registered account.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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