Here’s a Gem for High Monthly Income

Description

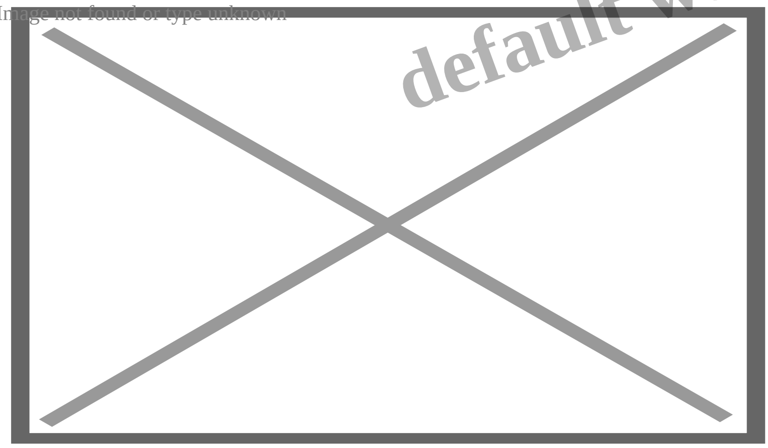
Right now, retail-related stocks are being painted with a wide brush due to the headwinds from e-commerce. The share prices of retail real estate investment trusts (REITs) are depressed and are now trading at relatively cheap valuations compared to their recent histories, even though they’ve traditionally been stable investments.

The first retail REIT investors may think of is **RioCan Real Estate Investment Trust** (TSX:REI.UN) as it’s the largest in Canada. RioCan earns rent from ~6,200 tenants and has little exposure to any single tenant.

RioCan’s top 10 tenants contribute 32.4% of its annual rental revenue and have weighted average lease terms of more than seven years. They include well-known public companies such as **Canadian Tire**, **Loblaw**, **Wal-Mart**, **Cineplex**, **Metro**, **Lowe’s**, and **Dollarama**.

Currently, the REIT offers an above-average yield of 5.8%, and it has a recent payout ratio of about 84% and a high occupancy of 96.2%.

Image not found or type unknown



You may be surprised that another retail REIT offers a better value and better growth prospects today: **Plaza Retail REIT** (TSX:PLZ.UN).

Strong fundamentals

Plaza Retail has little exposure to Alberta, which generated ~1.6% of it first-quarter net operating income. Notably, the REIT’s top 10 tenants contribute about 57.5% of its in-place monthly base rent; its top tenant, Shoppers Drug Mart (whose parent company is Loblaw) contributes 25.8%, followed by KFC franchisees, which contributes 8.7%.

Plaza REIT's recent payout ratio and occupancy were 82.9% and 96.2%, respectively. Both are healthy. Moreover, the company's interest coverage and debt service ratios have improved year over year.

Dividend growth

Plaza Retail has increased its distribution per share every year since 2004. Only one of two publicly traded REITs on the Toronto Stock Exchange has achieved that feat. Its distribution per share is roughly 3.8% higher than it was a year ago.

Valuation and growth

Plaza Retail, as a small company, has the advantage of growing at a faster pace than a large-cap company such as RioCan. One analyst thinks Plaza Retail can grow its funds from operations per share by 7% per year for the next three to five years. Comparatively, RioCan's growth rate is estimated to be about 3.2%.

Despite Plaza Retail's expected higher growth, it trades at a discount to RioCan. At $4.31 per share, Plaza Retail trades at a multiple of about 12.8, whereas at $24.24 per share, RioCan trades at a multiple of 14.3. If the stocks trade at normal levels 12 months from now, RioCan can deliver total returns of about 15%, while Plaza Retail can return nearly double that amount!

Investor takeaway

An investment in Plaza Retail will likely be a bumpier ride than an investment in RioCan. However, Plaza Retail offers a yield of nearly 6.3%, which is roughly 7.5% higher than the yield that RioCan currently offers.

Moreover, Plaza Retail REIT will likely deliver higher growth and higher total returns in the long run. Income investors who can stomach higher volatility should consider buying Plaza Retail, especially when its share price stabilizes from the recent pullback.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:PLZ.UN (Plaza Retail REIT)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2017/07/24
Author
kayng