



## With Yields of Less Than 5%, These REITs Are Next to Explode!

### Description

As most investors purchase real estate investment trusts (REITs) for income purposes, the sector is prone to having a number of undervalued gems hiding in plain sight. Although most investors do not consider the industry as a source of capital appreciation, it is important for investors to realize that by digging deeper, there are a number of names available that offer substantial value with the potential to break out over the next few months. The catalyst in many cases is the potential to increase dividends.

The company with the most potential is **Melcor Developments Ltd.** ([TSX:MRD](#)), which, at slightly more than \$15.50 per share, offers investors a dividend yield of more than 3.3%, as the company remains patient for the Alberta housing market to turn. Although many investors have shunned this name, the value and the upside potential are found on the balance sheet in the form of tangible book value.

With four different segments, the dividend payments are more than funded by the three secondary divisions, while the home building division, which is the biggest source of hidden value, is lying patiently in wait. At current levels, shares trade at \$0.53 on the dollar given the tangible book value of \$29.29 per share. The catalyst for this name will come as the Alberta economy recovers and as all four divisions return to a more normalized level of profitability.

The second name to consider is **Morguard North American Residential REIT** ([TSX:MRG.UN](#)). At a price of almost \$16 per share (near a 52-week high), it offers investors a 4% dividend yield, while trading at less than eight times earnings and approximately 70% of tangible book value. The icing on the cake for investors comes when looking at the dividend-payout ratios for the past three fiscal years. Dividends as a percentage of cash flow from operations (CFO) accounted for 33% (2016), 43.7% (2015), and 48% (2014).

Given the declining payout ratio, investors may be about to receive a fantastic dividend increase or potential share buyback in the near future.

Another residential REIT to consider is **Killam Apartment REIT** ([TSX:KMP.UN](#)). At a price of \$13.25 per share, it offers investors a dividend yield of approximately 4.7%. The fantastic news for investors is

that the company has kept the dividends steady over the past three years while experiencing a declining payout ratio. As CFO has increased, the dividend-payout ratios have been 49.6% (2016), 59.7% (2015), and 59.4% (2014).

Given the the dividends paid to shareholders for the first half of fiscal 2017 account for 53.3% of CFO, investors continue to experience a buildup in the company's tangible book value, which will hopefully lead to more price appreciation.

Although many investors have become acclimatized to higher-than-average yields from REITs, the sector has potentially worked itself into a tale of two different compartments — the first being high yields and steady share prices, and the second being lower yields (and a more conservative approach), which will lead to higher returns for investors over the long term!

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)
2. TSX:MRD (Melcor Developments Ltd.)
3. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

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