Income Investors: Be Greedy While Others Are Fearful With This 6.25% Yielder

Description

As an income investor, it often pays dividends (or distributions) to be a ridiculously cheap value-oriented investor. There are many undervalued gems out there that have been beaten up unfairly because of industry-wide fears that haven't been causing too much turmoil in the business itself.

If you've got the discipline to be a true contrarian and buy while others are fearful and remain calm while the herd heads for the exits, then you're well on your way to meeting your long-term investment goals, whatever they may be.

If you're a retiree who's looking for stable high-yield securities, then you've got to do extra homework to ensure that dividends or distributions are safe from potential cuts in the future. Here's an oversold REIT with a fat distribution that's safer than recent stock price movements would suggest.

SmartCentres REIT (TSX:SRU.UN), formerly known as Smart REIT, is a shopping-centre-focused REIT that has taken a hit on the chin of late due to fears over the death of the shopping mall. E-commerce is the future, but there isn't enough evidence to conclude that shopping centres are going to be deserted wastelands in a few years from now.

SRU.UN currently has a whopping 6.25% yield, which is substantially higher than the company's five-year historical average yield of 5.5%. While it's true that many brick-and-mortar retailers are struggling to adapt to the rapidly changing retail environment, most of SmartCentres REIT's tenants are among the highest-quality retailers out there, and they're some are thriving in spite of pressures brought forth by digital retailers.

SmartCentres is anchored by **Wal-Mart Stores Inc.**, which is a huge traffic driver and is expected to be for many years to come. I believe many investors are underestimating the stability of SmartCentre's business, and, as a result, shares have taken a dip, which I view as an opportunity to initiate a contrarian position.

Going forward, SmartCentres is going to continue developing its mixed-use properties, which will be a nice to diversify away from shopping centres.

Bottom line

Shares of SRU.UN continue to pull back despite its robust, growing FFO. The stock is trading at a discount to its intrinsic value with a 13.93 price-to-earnings multiple, a 1.2 price-to-book multiple, and a 6.4 price-to-sales multiple, all of which are slightly lower than the company's five-year historical average multiples.

Income investors should consider initiating a position today with the intention of buying more should a further decline happen in the coming months.

Stay smart. Stay hungry. Stay Foolish.

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1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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