A High-Yield Dividend Stock That Is Safe for Long-Term Buyers

Description

Buying stocks just because they pay high dividend yields has never been a good idea. I have seen bets on high-yielding stocks going wrong when investors were just getting excited about the company's potential.

For long-term investors, it's very important to make the distinction between a safe dividend yield and a risky high yield. History is full of examples of companies that had great track records of paying dividends, but were then forced to cut dividends due to the changing business environment in a bid to preserve cash.

Today, I have chosen a high-yielding dividend stock that doesn't carry the risks I mentioned earlier. Let's find out if you should buy this name to earn long-term income.

RioCan

RioCan Real Estate Investment Trust (TSX:REI.UN) is Canada's largest REIT and is well positioned to maintain its high monthly dividend. With 300 retail properties across Canada, it owns and manages the country's largest portfolio of shopping centers with top quality tenants.

Being Canada's largest REIT, RioCan is very sensitive to Bank of Canada's interest rates moves. When the central bank began hiking interest rates this summer, investors shunned the developer on concerns that higher borrowing cost would diminish its investment appeal.

After the two rate increases since July, the Bank of Canada has signaled its intent to adopt a cautious approach going forward in its most recent announcement.

The second reason to be optimistic about this high yielding dividend stock is that RioCan is in the midst of re-balancing its rental portfolio. The company plans to exit the smaller markets and focus on Canada's six largest cities. In the process, it plans to sell about $2 billion worth of properties and use half the proceeds to buy back its shares.

Once this process is complete, RioCan will have about 90% of annual rental revenue coming from these six markets, with over 50% from the Greater Toronto Area.

The bottom line

Trading at $25.04 a share at the time of writing, RioCan stock is back on the upward trajectory. With 22 years of uninterrupted dividends, the company has a solid track record when it comes to paying dividends. During that period, RioCan raised its annual distribution 16 times.

RioCan is a safe bet in the real estate space, as it generates enough rental income to manage its monthly distribution of $0.1175 per unit. At the time of writing, the payout provides an annualized yield of 5.83%.

For long-term dividend investors, this high-yield dividend stock offers a good buying opportunity at a time when its return is almost double the average return offered by the companies listed on the Toronto Stock Exchange.

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1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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