



## Income Investors: The Yield Isn't Everything

### Description

The [total return](#) equals dividends received plus capital appreciation. Since dividends can be more predictable than price appreciation, some investors may be satisfied with a stock that delivers a safe 7% yield, seeing as the average market return is 7-10%.

**NorthWest Health Prop Real Est Inv Trust** ([TSX:NWH.UN](#)) and **Altagas Ltd.** ([TSX:ALA](#)) both offer yields of roughly 7%. However, Altagas will deliver higher returns for the next few years. I'll explain why below.

### NorthWest Healthcare Properties

NorthWest Healthcare Properties has about 144 healthcare properties with an occupancy rate of roughly 95% and a weighted average lease expiry of nearly 11 years.

Its global portfolio consists of hospitals and medical office buildings from Canada, Australasia, Brazil, and Germany. Roughly 64% of its net operating income is from outside Canada.

With a payout ratio of under 84% and stable rents generated from its assets, NorthWest Healthcare Properties's distribution yield of 7% should be intact.

Much of the healthcare REIT's growth comes from its assets that are outside Canada. Altogether, the REIT is estimated to grow its net operating income roughly at a rate of 4.6%.

So, an investment in NorthWest Healthcare Properties today can deliver an estimated return of about 11%.



## Altagas

Altagas has a diversified portfolio across three business segments. It generates about 35% of its normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) from its utility assets, 35% from its power assets, and 30% from its gas midstream assets.

It generates roughly 70% of its normalized EBITDA from the United States. Since more than 80% of its normalized EBITDA is contracted with medium- to long-term agreements, its cash flow generation is pretty predictable.

Altagas is working on a transformative acquisition, which will increase its diversification, competitive position, and utility normalized EBITDA contribution to about 50% temporarily. In the long run, Altagas aims to balance the normalized EBITDA from the three segments.

Altagas is still waiting for a couple of regulatory approvals for the acquisition. If all goes well, the transaction will close in the first half of the year.

With a payout ratio of about 63% of its operating cash flow, Altagas's nearly 7.5% yield should be intact. From 2019 to 2021, management aims to increase the dividend by 8-10% per year. If so, investors can expect Altagas to grow at a rate of at least 5.8% through 2021. Coupled with the juicy dividend, an investment in Altagas today should deliver a rate of return of at least 13%.

## Investor takeaway

Both NorthWest Healthcare Properties and Altagas offer yields of ~7%. However, for the next few years, Altagas should be able to deliver higher total returns due to the expectation of higher growth.

The yield isn't everything. The growth of the profitability behind the dividend is what matters. After all, [growing profitability](#) supports a safer (perhaps even growing) dividend, given all else is equal.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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