# 3 Reasons to Own This 2.7% Yield

## Description

Whether we're talking real estate stocks on the TSX or stocks in general, **Tricon Capital Group Inc.** (TSX:TCN) is one of the best. It proved as much March 1 when it announced Q4 2017 earnings results that knocked your socks off.

Here are a few of the highlights:

- Net income was up 187% in fourth quarter to US$25.7 million.
- Assets under management rose 53% in the quarter to US$4.6 billion.
- Adjusted diluted earnings per share in the fourth quarter increased 144% to US$0.39.
- Net income on an annual basis increased 16% to US$69.3 million.
- Adjusted diluted earnings per share on an annual basis increased 90% to US$1.10.

Naturally, CEO Gary Berman was ecstatic about Tricon's accomplishments in 2017.



"In recognition of the progress we have made and to signal our confidence in the future, we are also pleased to announce an increase in our dividend of nearly 8%, while still maintaining a relatively low payout ratio so that we can reinvest our capital and grow our business organically," stated Berman in the Q4 2017 earnings release.

Tricon's dividend is now $0.28 on an annualized basis for a 2.7% yield. That's not too shabby for a small-cap stock that very few people have ever heard about.

As I said in the beginning, Tricon is one of my favourite stocks on the TSX. Here are three reasons why you want to own it.

**Better than RioCan**

One of the best known and largest real estate investment trusts in the country is **RioCan Real Estate Investment Trust** (TSX:REI.UN), which owns retail real estate in major cities across the country. It's in the middle of a transformation that will see it sell as much as $2 billion in real estate to focus on Toronto, Vancouver, Edmonton, Calgary, Ottawa, and Montreal.

Smaller markets are out; big cities are in. It's a smart plan but it's going to take some years to execute. In the meantime, its 6.2% yield acts as an incentive to wait.

That's one way to go.

However, why wait when you can invest in Tricon now with its 2.7% yield and a business that's running on all cylinders? It's important to remember that investors ought to be looking for total return when investing in stocks, not just dividend yield.

Since 2013, Tricon's annual total return has beaten RioCan's in four out of five years, delivering an 11.4% annualized total return — 950 basis points better than RioCan.

The numbers don't lie.

**Tricon American Homes (TAH)**

Tricon has five operating segments, the most significant being TAH, which buys single-family homes in the U.S., renovates them and then rents them out. Thanks to the acquisition of Silver Bay Realty Trust Corp. in May 2017, it now owns 15,200 homes in the U.S., making it the third-largest publicly owned single-family rental company in the U.S.

That's something when you consider that **Invitation Homes Inc.** — the largest in America with 80,000 homes — is the combination of the single-family housing businesses of **Blackstone Group LP** and **Starwood Capital Group**, two major players in private equity and other alternative investments.

Despite being the little guy in single-family home rentals, Tricon is doing just fine.

In 2017, TAH's core funds from operations (CFFO) rose 61% to US$35.8 million with same home net operating income (a similar metric to retail same-store sales) up 10.6%. Anytime you can deliver same-store double-digit growth; business is humming.



**Diversified revenue streams**

Although TAH is the company's biggest operating vertical generating 64% of its overall investment income and fees, the other four units make substantial income and fees to reduce some of its reliance on single-family home rentals.

That's especially true of its private funds and advisory business, which has contracted fees built into its asset management contracts, thereby delivering consistent income from one year to the next.

With this source of income virtually guaranteed, it can afford to take the occasional risk in its other four verticals.

You might not think its stock is cheap at 20 times current earnings, which is about double RioCan's, but I believe that it will continue to outperform the REIT over the next three to five years.

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