Monthly Income: Earn a +6% Yield From This Dividend Stock

Description

I love stocks that pay monthly income. A simple reason that attracts me to monthly dividend-paying stocks is that it's much easier for retirees to sync their monthly expenses with a monthly income stream.

In your golden age, when you might need to augment your income to pay for your bills, having monthly cheques arrived in your mailbox should be very convenient.

Another big benefit of investing in monthly dividend stocks is that you get much better compounding when you reinvest dividends to buy more shares. If you're receiving dividends every month, you can use them to reinvest in more stocks and have those dividends grow more.

Unfortunately, there are not many companies that pay monthly income. In Canada, real estate investment trusts (REITs) provide one of the best avenues to earn monthly income. Among REITs, I like **RioCan Real Estate Investment Trust** (TSX:REI.UN). Here is why.

Consistent dividend history

RioCan is Canada's largest retail REIT, managing a portfolio of 289 properties, including 17 development properties, with an aggregate net leasable area of 44 million square feet.

For dividend investors, RioCan's consistent history of rewarding investors is the biggest attraction. The company has been paying dividends for the past 23 years. During that period, RioCan raised its annual distribution 17 times.

Trading at $23.45 at the time of writing, RioCan shares are down 4% this year and 10% during the past 12 months. This pullback has pushed its annual dividend yield higher to more than 6%. For buy-and-hold investors, this yield will translate into a $0.12-a-share monthly dividend.

Residential push

The biggest concern that investors have about retail-focused REITs is how they will survive in an environment when the shift for consumers to buy products online is reducing the need for physical presence for top brands. In Canada, the demise of Target and then Sears is adding to these worries.

In the first-quarter earnings report on May 9, RioCan showed its revenues were flat at $290.1 million, and net income fell 16.6% due to prior-year investment gains. However, funds from operations (FFO), the key metric for REITs, benefited from a tight market in major city centres, rising 6.1% to $0.46 per unit.

RioCan is exiting Canada's smaller markets and instead will focus on the six largest markets. In the latest move, the company announced its new residential brand, RioCan Living to take advantage of swelling demand for mixed-use properties.

In five years, RioCan expects that up to 5% of its operating income will come from residential, and in about a decade its goal is 10% or higher.

The bottom line

If your investment objective is to earn steady monthly income, then RioCan offers a solid entry point, especially when it's well on track to transform its business in the next few years to counter a threat from online shopping. At its current price, with a yield over 6% and a P/E ratio under 11, I find RioCan cheap with upside potential of at least 30%.

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