



1 Small-Cap Income Growth Play I Would Buy Today

Description

Investing in fixed-income securities has traditionally been the most default investment play as one reaches retirement age, but the decade-long low interest rate environment in the bond market has limited the income potential from this asset class, requiring investors to strongly consider real estate and other relatively reliable income-generating asset classes to supplement bond portfolio payouts.

Even as general interest rates begin to rise, the need for bond alternatives has never been greater, as investors need capital growth and some inflation protection too — something that some stocks and several REITs have managed to do over the most recent years.

Among some of the best-performing income stocks over the past five years is one small issuer that is on a strong growth path and has been generating both high-yielding distribution payouts and capital appreciation — offering investors the desired monthly paycheques and growing the nest egg, too.

I am referring to none other than **Firm Capital Property Trust** (TSXV:FCD.UN).

Firm Capital Property Trust

Firm Capital Property Trust (FCPT) is one of the young, attractive, consistently and sustainably growing small REITs in Canada. It holds a strong and diversified portfolio of 61 commercial properties, offering retail investors a stable and growing yield.

The trust, under the strong and experienced leadership of nine trustees, including six executives from **Firm Capital Mortgage Investment Corp.** and three other high-calibre strong performers as trustees, has been on a strong acquisitions-led growth path since its inception in 2012, and the trajectory looks well set to continue in the near future.

FCPT focuses on partial acquisitions with strong industry leaders in the real estate space, leveraging on co-ownership with existing property owners as well as some outright acquisitions, thus reducing new developments risks and minimizing cash outlays while growing a stable distribution.

The young REIT pays an attractive distribution, which has grown by 31% since 2012. Currently,

FCPT's monthly distributions, since January 2018, of \$0.0383 a unit yields 7.09% on a forward basis and has been increasing every year.

I like the REITs very conservative leverage. At a current debt ratio of 48%, the fund has some of the lowest debt levels in the industry, reducing the risk of distribution quality deterioration should general interest rates continue to rise in the long term.

Although the adjusted funds from operations (AFFO) payout rate for FCPT recently jumped to 108% for the first quarter ended March 31, 2018, from 87% in the last quarter of 2017, the ratio has been oscillating between 94% and 103% on an annual basis for the past three years. It's important to watch how the ratio changes going forward, but it has been mostly higher in the first quarter historically.

The REIT is somewhat geographically diversified, with a strong presence in Ontario, where 72% of the trust's net operating income is generated; exposure to Quebec stood at 19% of the portfolio in June, while properties in the Maritimes constituted 8% of the portfolio.

I like FCPT's portfolio diversification by property use, with retail at 51%, industrial properties at 39%, office at 7%, and apartments comprising 3% of the portfolio. That said, strong exposure to retail could scare of some at face value, as retail is said to be dying worldwide, but [not all retail is on its way out](#). FCPT is concentrated in the net lease convenience and standalone retail — a niche that seems more secure and could even continue growing.

FCPT has grown its net asset value by 44% since 2012, and it has been growing its AFFO by double digits over the past four consecutive years, thanks to highly competent external managers and a targeted acquisitions strategy.

One worrisome issue is the REIT's low 92.6% weighted average occupancy rate by December 2018. I am hoping to see improvement this year as FCPT continues to deliver growth and makes new acquisitions after the most recently closed equity raise.

Investor takeaway

Firm Capital Property Trust is executing consistently, and the REIT's growing, bond-like cash flows offer significant inflation protection for income investors. Initiating a position in the REIT could help grow a retirement account more steadily.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/25

Date Created

2018/07/30

Author

brianparadza

default watermark

default watermark