Should You Buy REITs or Mining Stocks for Diversification?

Description

If you like your stocks with a bit of grit, the following two mining picks will give you not only some sturdy metal and minerals exposure, but also some diversification. An REIT has been added for comparison: which is the better buy if you want a ready-diversified investment, but have a focus on quality, value, and growth?

Sierra Metals (TSX:SMT)

Our first mining stock on the list, Sierra Metals is involved with producing, exploring, and developing precious and base metals across sites located in South and North America, namely Peru and Mexico. Today, Sierra Metals is trading at a discount of 28% of its future cash flow value. A high P/E of 27.4 times earnings is fairly acceptable considering a 61.5% expected annual growth in earnings.

Following on with market fundamentals and we have a PEG of 0.4 times growth and a P/B of 2.4 times book, with the latter perhaps the clearest indicator of valuation here. A return on equity of 11% last year doesn't signify high quality, while a lack of dividends is to be expected for a miner. Debt of 31.2% of net worth isn't too bad, though a jagged trend in share price makes this one to avoid for all but the most eagle-eyed of momentum investors.

Altius Minerals (TSX:ALS)

If you are looking for a pre-diversified miner offering royalty, streaming, and mining project generation, Altius Minerals could be the one for you. Active in both Canada and Brazil, Altius Minerals is currently overvalued by double its future cash flow value, which seems a fairly poor valuation until its P/E of 16.4 times earnings is taken into account.

In terms of assets, Altius Minerals is market-weight, though with its P/B ratio of 1.5 times book, you're paying a little over the odds for a Canadian mining stock. All told, the valuation for this stock isn't bad today. In terms of quality, a return on equity of 8% last year sits fairly well beside a debt level of 16.3% of net worth. A dividend yield of 1.32% further adds to the quality of this stock.

A 3.4% expected reduction in earnings over the next 1-3 years should be taken into account, with this year's clear downward trend in the price of this stock, the latter factor making it a potential target for momentum traders, though not for growth investors.

Cominar Real Estate Investment Trust (TSX:CUF.UN)

If size is your thing, then look no further than Canada's third largest diversified REIT. It's also the largest commercial real estate owner in Quebec, so that should give you a sense of scale. A big discount of 46% off its future cash flow value is on offer today, though only its P/B ratio (0.7 times book) can be read in terms of fundamentals. A 3.3% expected annual reduction in future earnings is also on the cards.

Cominar REIT is offering a dividend yield of 5.96% at today's price, though do be aware that it carries debt of 112.8% of net worth. All told, REITs clearly pay the better dividends here; however, mining stocks can offer higher growth. That said, there is nothing stopping you buying both types of stocks.

The bottom line

REITs are the way to go if you like your dividends, though it's good to see a mining stock – Altius Minerals – offering a payout. Consider adding its competitor, Sierra Metals to Cominar REIT for a two-fisted punch in a knockout portfolio. Why Sierra Metals? In short, its growth outlook outweighs its overvaluation, making for a better quality pick; the resultant combination of a diversified REIT and a diversified miner is a strong play.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ALS (Altius Minerals Corporation)
2. TSX:SMT (Sierra Metals Inc.)

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Date
2025/06/29

Date Created
2018/09/16
Author
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