These Big Dividend Stocks Are Being Bid Up by the Market

Description

Corrections in dividend stocks are income investors' best dreams, given that the stocks offer safe dividends. Both the stocks of **Boston Pizza Royalties Income Fund** (TSX:BPF.UN) and **Plaza Retail REIT** (TSX:PLZ.UN) have experienced severe corrections and offer yields of 7-9%. Let's review the big dividend ideas.

Is Boston Pizza Royalties Income Fund's dividend safe?

The income fund earns revenue from 391 Boston Pizza restaurants as royalties based on the franchise system sales. The fund is primarily an income investment. So, interested investors should aim to buy the stock on huge dips.

In the last 12 months, Boston Pizza Royalties Income Fund stock has fallen 28% to about $15.90 per share as of writing, which has pushed the cash distribution yield to be enticing at 8.7%.

The fund tends to pay out about 100% of its distributable cash as cash distributions, as there's no need to retain capital for other purposes. For example, from 2012 to 2017, the income fund's payout ratio ranged from 94-101%, while it increased its cash distribution in four of the years.

Its payout ratio for the trailing 12 months to Q3 was about 103%, which is obviously on the high end. Since 2003, the fund has cut its cash distribution in two of the years. So, the stock's dividend isn't foolproof.

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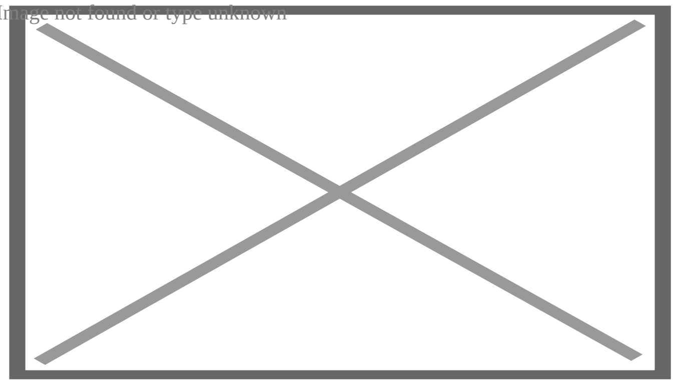

However, at current levels, the stock is trading at a relatively cheap valuation — about 1.2 times book value and 10.9 times cash flow, which are valuations last seen in 2011.

So, if you’ve been eyeing the stock, now’s a good time to consider buying some shares on the dip, and especially after seeing some buying action from the market this week.

This retail REIT offers a safer yield

Plaza Retail REIT offers a smaller but more secure yield of about 7%. In fact, it has increased its cash distribution every year since 2003. However, it’s still primarily an income investment, as recent increases have been in the 3-4% range, about the long-term rate of inflation.

The stock looks undervalued, as it has fallen more than 20% from the $5 range in 2017. At $4.03 per unit as of writing, the stock trades at a price to funds from operations ratio (P/FFO) of about 11.9.

As a real estate investment trust, which inherently has high debt levels, the stock has been pressured by increasing interest rates. It also doesn’t help that it’s in the retail properties space.

Its Q3 results indicate that there are some slip-ups. Compared to the same period in 2017, Plaza Retail’s FFO per unit declined 5.3%, and its adjusted FFO per unit declined 10.6%, which lead to its FFO payout ratio increasing by 7% to 83.3% and its adjusted FFO payout ratio increasing by 12.8% to 95.1%.

On the other hand, its interest coverage ratio of 2.29 times, debt service ratio of 1.63 times, and committed occupancy of 95.9% remain stable.

Which big dividend stock should you buy?

Although the valuations of both Boston Pizza Royalties Income Fund and Plaza Retail REIT have come down, Plaza Retail is the clear pick with more stable growth from rent increases that should more or less match inflation. The REIT also has a stronger dividend growth track record.

This week there has been some buying action for both stocks, but an investment in Plaza Retail today should be a safer investment that has higher return prospects. Interested investors should aim to pick up the stock, ideally in the $3.80 range.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
2. TSX:PLZ.UN (Plaza Retail REIT)

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