



## Should You Buy This Income Stock for a 13% Yield?

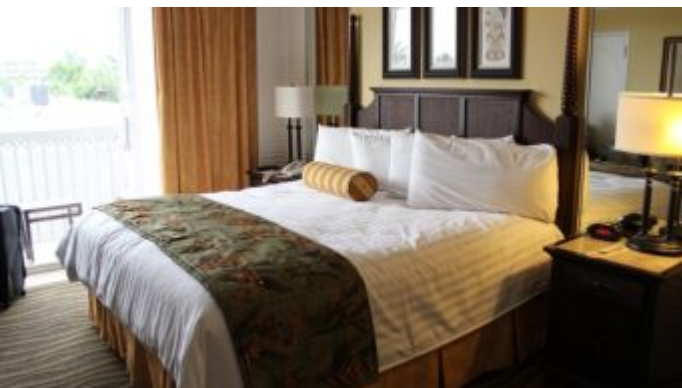
### Description

When stocks yield 6% or higher, they're considered high-yield stocks. The income potential is enticing, but investors should take extra care to investigate the risk of dividend cuts and the downside risk. The fact that these stocks command high yields implies the market thinks they have greater risks than stocks that offer yields of 3-4%.

**American Hotel Income Properties REIT** ([TSX:HOT.UN](https://www.tsx.com/stocks/american-hotel-income-properties-reit)) is a good example. It used to offer a high yield of 9% before the stock got battered and declined 28% in about two months. Let's explore the [income idea](#).

### American Hotel's portfolio

American Hotel holds a portfolio of hotel properties primarily in secondary markets in the United States. It has about 113 hotels, including 67 premium branded hotels and 46 economy lodging hotels, which used to cater to rail crews but have generally been upgraded and now are marketed to other customers as well.



### Why the stock has sold off

American Hotel's Q3 report indicated that it expected an adjusted funds from operations (FFO) payout ratio to be 100% this year instead of the previous guidance of about 90%.

So, there isn't any margin for error, and there's an increased chance of a dividend cut. As a result, the market has been brutal to the stock. American Hotel stock has sold off, and it's nearly 20% lower since it reported its Q3 results.

November 30 was a down day for the stock, but only marginally down by 1.2%. On the day, there was news of a data breach at **Marriott** hotel's Starwood hotel chain, which may have affected up to 500 million hotel guests between 2014 and 2018. However, Marriott clarified that the Marriott-branded hotels were not impacted because it uses a different software system. So, this data breach doesn't affect American Hotel's portfolio.

### **Insider buying hasn't saved the stock**

Generally, insider buying is seen as a positive because it shows management is confident in the company. However, recent insider buying hasn't stopped American Hotel stock from falling. Specifically, five insiders have bought shares directly or indirectly on the public market in November.

Specifically, CEO John O'Neill, who came on board in early October, had bought 254,400 units since September 12. He holds about \$2.2 million worth of American Hotel stock.

### **When will the American Hotel Stock turn around?**

In the end, the stock price will follow the fundamentals. When cash flow improves and the FFO payout ratio reduces to more normalized levels and if American Hotel reduces its debt levels, the stock should trade much higher.

One reason for the reduced FFO is that American Hotel has been doing renovations at some of its hotels. So, the payout ratio should improve as affected hotels return to normal operation.

### **Should you buy American Hotel stock?**

For now, American Hotel is keeping its monthly cash distribution the same at US\$0.054 per unit, which equates to a humongous yield of 13% at \$6.61 per unit as of writing.

It's safer to think of the stock as [a turnaround investment](#) instead of a safe high-yield income stock. So, consider the stock's total returns potential, including the chance of a cash distribution cut, and decide if you still want to own the stock.

**Bank of Nova Scotia** has a one-year target of \$8.25 per unit on the stock, which represents 24.8% near-term upside potential. Any income received from American Hotel's cash distribution will also add to the returns.

### **CATEGORY**

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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