This High-Yield Dividend Stock Beat the Market Last Year

Description

The Real Estate Investment Trust (REIT) sector is popular among dividend investors, and with good reason. Companies in this sector generate considerable cash flows and are required to distribute a large percentage of it as dividends. Among Canadian REITs, **Granite REIT** (TSX:GRT.UN) is one of the most attractive investment.

The Toronto-based real estate firm managed to beat the market last year, providing a net return of about 13% to investors amid global economic uncertainty. This return compares favourably to the TSX average, which was negative. There are several good reasons why you should consider adding Granite to your portfolio. Let's consider two of them.

The benefits of industrial properties

Granite primarily owns industrial properties that possess various advantages over other building types. Industrial properties are considerably cheaper and faster to build and maintain. REITs that own primarily industrial properties are also less likely to run into overbuilding problems, although the risk persists. This factor is significant, as overbuilding is widely considered one of the largest threats within the real estate sector. This threat is less severe for industrial REITs, however.

Industrial REITs do have one drawback; as the tenants are other businesses, they tend to be sensitive to the economic cycles of their client base. The quality of the tenants is therefore very important, as is always the case with REITs. Fortunately, Granite is home to many internationally renowned companies. The list of tenants in Granite's properties includes Mercedes-Benz, Sears, Samsung, etc.

Increased diversity

Granite was originally a branch of **Magna International Inc** (TSX:MG)(NYSE:MGA), an Ontario-based automotive supplier and the largest manufacturer of auto parts in North-America. Because of Granite's past relationship with Magna, the automotive supplier is still Granite's largest tenant by a distance. However, Granite has managed to decrease the degree to which its top line relies on Magna. In 2010, Magna contributed about 98% of Granite's rental revenue. That number had dropped to 71% by the end of 2017.

Reducing exposure to Magna and increasing tenant diversity has been a priority for Granite for many years. The company continues to sell properties that are primarily occupied by Magna while acquiring others that are more diversified. No other tenant in Granite's facilities accounts for more than 3% of the company's revenue. If Granite can manage to achieve this level of diversity across the board – which is indubitably on the company's to-do list – it will become even more attractive to investors.

Investor takeaway

Granite has shown its ability to increase cash flows over the years. From 2010 to 2017, the company's funds from operations (FFO) grew by about 133%. That is an average yearly growth of 19%. Granite has increased its dividend payouts by 55% over the same period. Growing cash flows and dividends are always a winning combination for income-oriented investors.

As a bonus, Granite issues monthly dividend payouts, and its current 4.56% dividend yield still has much room for growth. These factors added to the company's ability to perform well even when most of the market doesn't should provide enough incentive for investors. A defensive high-yield dividend stock is worth a lot in today's climate.

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