Dividend Investors: Which REIT Will Cut Its Distribution Next?

Description

The dreaded dividend cut is every income investor's worse nightmare.

Most dividend investors are looking for the exact opposite outcome, of course. They want to create a passive income empire of stocks that pay ever increasing dividends. For some, a high-yield portfolio of stocks paying a consistent portfolio is also acceptable.

A dividend cut usually goes hand-in-hand with a big price decline as income lovers sell and move on to the next stock. That's not the kind of chain reaction you want to see when it's your money at stake.

I can't predict with 100% certainty which REIT will be the next to cut its distribution, but I can identify a couple with a higher than normal chance of slashing their payouts. Let's take a closer look.

American Hotel Properties

There's little doubt about it. **American Hotel Properties REIT** (TSX:HOT.UN) and its 12.3% dividend are on thin ice.

In 2018 the trust struggled with weaker results caused by a large renovation program that saw some marquee properties post lower occupancy rates. 2017's results were also stronger because hurricanes sent more folks into hotels in the fourth quarter. Adjusted funds from operations (AFFO) for 2018 came in at US$0.65 per unit, while the trust paid out US$0.65 per unit in distributions. A 100% payout ratio is not what investors want to see.

The company has an additional US$25 million earmarked for renovations in 2019. This means that 2019's results may get weighed down by the same issues as last year.

But it's not all bad news. Shares trade at an incredibly low valuation, including at a significant discount to book value and at approximately 8 times adjusted funds from operations. The company's balance sheet is pretty solid, too. And shares are down approximately 15% in the last year, which suggests that investors have already priced in the possibility of a dividend cut.

Even if HOT.UN slashes its dividend in half, investors will still be getting a generous payout. So even though I think the possibility of a dividend cut is very real, I recently added the company to my portfolio.

Melcor

I really like **Melcor Real Estate Investment Trust** (TSX:MR.UN) as a value play in today's market, enticed by its low price-to-book value and its high dividend rate, which is currently 8.6%. Shares trade at approximately half the value of the underlying net asset value of the portfolio, thanks to worries about the Alberta economy. If you're a believer in Canada's energy capital bouncing back, then you should take a long look at Melcor shares.

There's just one problem. The company is spending aggressively to entice tenants to take on long-term leases in today's soft Alberta market, which is really cutting into its adjusted funds from operations. In 2018, the trust posted AFFO of $0.68 per unit, while paying out $0.68 per unit. That's a payout ratio of just under 100%, mostly thanks to rounding.

Needless to say, income investors should be a little concerned, especially if the Alberta market remains weak.

The bottom line

Fortunately, most Canadian REITs have rock-solid payouts, even those with yields in the 7-8% range. There are just a few with somewhat dodgy payouts, and they're easily uncovered if you do a little extra digging.

If you're looking for a little risk to go with your dividends, check out American Hotel Properties or Melcor REIT. These REITs offer some capital appreciation potential. And if you want a safer payout, look elsewhere.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/23
Date Created
2019/04/25
Author
nelsonpsmith