



Get \$250 a Month in Passive Income From This Little-Known REIT

Description

Every now and again I like to focus on smaller companies, knowing that they have better upside potential than their larger cousins.

It's much easier for most companies with a sub-\$1 billion market cap to double in size than it is for a company worth \$10 billion. But that doesn't mean that every smaller company is poised to skyrocket. We have to do deeper research to determine the growth stocks from ones that are content to stay small.

I've discovered a smaller REIT that not only has great growth potential, but is also trading at a cheap valuation and offers a terrific dividend yield. Let's take a closer look at this interesting opportunity.

Slate Retail

Slate Retail REIT (TSX:SRT.UN) is the owner of grocery-anchored real estate in what the company describes as secondary U.S. cities. The company owns 84 different properties spanning more than 10 million square feet of gross leasable area in markets like Atlanta, Charlotte, and Minneapolis.

Some investors don't particularly like retail real estate in today's market, as they're convinced that internet retailers are going to make traditional shopping obsolete. There's little doubt that internet shopping will continue to grow, but I'm confident grocery stores will be one of the safer areas of the retail market to invest in as we continue to enter this new era.

Thanks to the nature of its business, Slate has all sorts of growth potential. There are thousands of grocery-anchored pieces of real estate in the United States. The bigger issue holding back expansion is Slate's commitment to getting a decent value for every piece of real estate acquired. The company's value investing principles command it to never pay above replacement value for a property just for the sake of growing the portfolio. This discipline should serve it well over the long term.

Not only are investors getting a nice potential growth story, but they're also getting a company trading at a cheap valuation. Slate earned US\$1.27 per share in funds from operations in 2018, which

converts to approximately \$1.70 per share in Canadian currency. Slate's units on the TSX currently trade at \$12.47 each at writing, putting shares at a price-to-funds from operations ratio of just 7.3. You won't find many cheaper stocks.

Slate is also cheap from a price-to-book value perspective, trading at a 12% discount to the underlying value of its portfolio. Management also agrees the stock is undervalued, as symbolized by consistent efforts to buy back shares since the beginning of 2018. Approximately 5.5% of shares have been repurchased.

Investors should consider a couple of risks with a Slate Retail investment. The stock has a high payout ratio on an adjusted funds from operations perspective, creeping up over 100% in the latter part of 2018. And the company's debt-to-book value ratio is approximately 60%, although management has a plan to get that ratio back to 50%. Still, it's a risk.

Get paid \$250 per month

Slate has raised its dividend each year since 2014, including a small increase already in 2019 to boost the payment to US\$0.855 per share. This translates into a payout of \$1.154 in local currency, which gives the stock a dividend yield of 9.2%. That's a fantastic payout in today's market.

Such an attractive payout means that we don't have to invest that much to get an attractive income stream. An investment of just 2,604 Slate Retail shares would be enough to give you a dependable income stream of \$250 per month. That's an investment of approximately \$32,471.

Think about how exciting having an additional \$250 each and every month would be. It's enough to pay for a utility bill or three. Or you could use it to take the family out for dinner a few times. And remember, that \$250 reinvested each month would further increase your annual income by an additional \$23. Do that consistently for a few years and your passive income will really explode higher.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SGR.UN (Slate Retail REIT)

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