This REIT Is a Passive-Income Juggernaut

Description

There are three key elements for a robust stream of passive income: stability, profitability, and predictability. If you're going to rely on the returns from an asset to fund your lifestyle, that asset had better be resilient to the economic cycles and inevitable market upheavals.

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The property sector, specifically through real estate investment trusts (REITs), is generally a great place to start. But if the 2008 downturn has taught us anything, it's that the real estate market is far from a risk-free haven for investors. Houses can be overvalued, technology can disrupt the retail industry, and interest rates can cause a liquidity crisis for even the biggest names in the sector.

That's why investors need to tread carefully and pick REITs not just based on their track records and dividend yields but also on their underlying financial strength and future potential. One trust that manages to balance these factors is **SmartCentres REIT** (TSX:SRU.UN).

The Ontario-based trust got its start as **Walmart's** first major real estate partner when the retail giant entered Canada in the early 1990s. The partnership has stayed intact and intensified over the years, as Walmart has expanded across the country. Now, the retail conglomerate is the largest tenant at SmartCentre properties, anchoring 115 locations from coast to coast.

This partnership with Walmart is an integral part of the REIT's appeal as an investment. Unlike other major retailers, Walmart has been able to thrive in the **Amazon** era. Management has adopted a clever omnichannel strategy that could help the company survive and grow over the foreseeable future. That puts SmartCentres in a good position.

However, the trust isn't putting all its eggs in one basket. It has over 34 million square feet of leasable space across the country. Currently, the locations have an aggregate 98% occupancy rate. All locations have at least one pharmacy or grocery, which makes them indispensable for the mostly suburban communities that rely on them.

All the properties are also relatively new, with the average age hovering around 15 years.

A look under the company's hood reveals that the underlying financials are just as sound. SmartCentres is currently carrying only $0.76 in debt for every dollar in equity — a remarkably low rate for a real estate firm. Nearly 46.3% of the company's assets are unencumbered by debt at all.

Revenue and funds from operations (FFO) have expanded 30% and 17%, respectively, over the past five years.

A combination of these factors make the SmartCentres REIT one of the most robust property investment opportunities in the Canadian market. Fortunately, the stock seems to be trading at a reasonable valuation as well.

At the moment, the stock trades at a mere 10% premium to book value and a price-to-FFO ratio of 14.6 times. Meanwhile, the average Canadian REIT trades at a 16 multiple to FFO.

SmartCentres is also a remarkably impressive dividend income stock. Its dividend history is spread out across 199 payments stretching back to December 16, 2002. Of late, the dividend payouts have increased, and the stock offers a sizable 5.5% dividend yield.

Bottom line

SmartCentres is a rare investment opportunity that offers a combination of high income, robust growth prospects, low debt, good anchor tenants, and a fair value for investors.

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vraisinghani

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