Investors: This Growth Stock Offers Limitless Potential and a 4.5% Yield

Description

Often, when buying a growth stock, investors are forced to focus on names that don't offer much yield.

Some might argue this isn't such a bad thing. A growth company should be plowing all of its profits back into acquiring more business, not using it to pay shareholders. Let the mature companies pay dividends.

But others see no reason why a profitable company shouldn't have enough left over to pay a half-decent dividend. Growth can always be fueled other ways, like issuing some debt.

And a dividend continually reduces risk, allowing an investor to slowly withdraw capital from a company without having to sell shares.

The good news is there are plenty of Canadian growth stocks that pay dividends. Let's take a closer look at one company that many investors might have missed.

BSR REIT

BSR Real Estate Investment Trust (TSX:HOM.U) owns multi-family housing in the sunbelt region of the United States, which is really just a fancy way of saying it owns apartment buildings in markets like Texas, Oklahoma, Louisiana, and Arkansas.

Its portfolio consists of 45 different apartment complexes spanning nearly 10,000 units.

The company's focus is in markets with good fundamentals, including above-average population growth, affordable housing, and solid economic growth forecasts.

It then tries to buy the best assets it can in these cities, focusing on gobbling up property that's still relatively new. Some recent acquisitions were properties that were just a few years old.

Management thinks the company will have good success raising rents in those kinds of markets, which will inevitably lead to earnings growth.

It’s easy to see the growth potential from an acquisition standpoint, too. There are approximately 50 million people who live in BSR’s target markets, and it can easily expand operations into new states as well. There are easily thousands of potential apartment buildings that can be acquired.

In fact, BSR just sold six buildings, using the proceeds to pay off debt. It’s likely the company will use the cash raised to further expand into markets it likes a little better.

For instance, BSR has been recently buying up apartments in the Dallas, Texas metro area.

Valuation

Despite being a nice growth stock — revenue growth was 12% year-over-year in its most recent quarter — BSR REIT also trades at a pretty cheap valuation.

Even after somewhat tepid second quarter results, BSR is on pace to generate US$0.69 per share in adjusted funds from operations (AFFO) in 2019.

The company’s U.S. dollar-denominated shares trade hands at US$11.10, putting us at 16 times 2019’s estimated AFFO.

That might seem a little expensive, but Canada’s top apartment REITs generally trade between 20 and 25 times 2019’s AFFO estimates.

This part of the real estate sector will usually have a premium valuation. Residential real estate is viewed as being more secure.

Get paid to wait

One other advantage BSR offers over its peers is a nice dividend. The current yield is 4.5%. Compare that to Canada’s top apartment REITs and it’s clear just how generous the payout is. Some of BSR’s peers barely pay 2% yields.

The dividend is sustainable, too. The payout ratio crept up above 80% of the most recent quarter’s AFFO, mostly due to a disappointing quarter.

But the payout ratio for the first two quarters of the year is much more reasonable, coming in at just over 70%.

You don’t need to worry about this dividend. It’s solid.

The bottom line

BSR is a solid growth stock that likely isn’t on your radar screen. You should be paying attention.

It’s a quality company with a limitless growth plan, a disciplined management team, a good valuation, and decent dividend paid while you wait. It also offers investors diversification into U.S. real estate, something most Canadian investors could use.

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Date
2025/08/26
Date Created
2019/08/10
Author
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