



Brookfield Property Partners (TSX:BPY.UN): A Top Investment for 2020 and Beyond

Description

The latest rate cut by the Fed and historically low interest rates globally have intensified the [hunt for yield](#) among income hungry investors. One reliable attractively valued dividend paying stock yielding in excess of 6.8% is **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY).

Quality portfolio

The real estate investment trust (REIT) owns a globally diversified portfolio of properties with its total assets valued at over US\$85 billion, including 143 office and 123 retail properties.

That portfolio includes many marquee assets such as Houston's Woodlands Mall, Brookfield Place in New York and Las Vegas's Fashion Show Mall. Those properties remain in high demand because of their elevated status.

Despite a sharp decline in net income, which for the second quarter 2019 was US\$0.12 per unit, or almost a sixth of what it had been a year earlier, funds from operations (FFO) soared by 45% year over year to US\$362 million.

The sharp decline in net income can be blamed on higher valuation gains being included in the second-quarter 2018 performance.

Nonetheless, for a business such as Brookfield Property, FFO is the far more appropriate measure though which to judge its financial performance because net income includes several non-cash items that don't correctly reflect its performance.

The impressive increase in FFO can be attributed to robust same-property growth in the partnership's office portfolio, higher earnings generated by new capital invested in its retail property segment and higher realized gains in its LP investments segment.

Brookfield Property continued its strategy of capital recycling during the second quarter, selling

US\$326 million of property assets, which was directed to strengthening its balance sheet, boosting cash holdings and funding its unit buyback.

The business has engaged in a unit buyback because management believes that Brookfield Property's true fair value is not being recognized by the market.

It has a net-asset-value (NAV) of US\$27 per unit, which is roughly 31% greater than Brookfield Property's current market value, highlighting the considerable upside available for investors.

What makes the stock standout is its juicy yield of 6.9% — well above what investors will receive from traditional income producing assets such as bonds and guaranteed investment certificates (GICs).

Brookfield Property's distribution is sustainable with a payout ratio of 102% of 12 months trailing FFO per diluted unit.

The payout ratio will fall to a more sustainable level as the volume of units outstanding decreases because of the buyback and FFO continues to grow.

This along with growing earnings will allow Brookfield Property to hike its distribution yet again, after having increased it for the last six-years straight.

The partnership also has a distribution reinvestment plan (DRIP) that allows investors to reinvest their distribution payments in additional units of Brookfield Property at no additional cost.

By doing so, they can access the power of compounding, accelerating the pace at which they can grow wealth.

Foolish takeaway

Brookfield Property is a best in-class REIT that is a relatively low volatility investment which rewards unitholders with a regularly [growing distribution](#) yielding a very juicy 6.9%.

What makes it even more attractive is that the partnership is trading at a deep discount to its NAV, and it is rare to find a quality REIT with a globally diversified portfolio of high calibre properties trading at such a discount.

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1. TSX:BPY.UN (Brookfield Property Partners)

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