Latest Results Confirm It's Time to Buy This REIT Yielding 5.5%

Description

The latest Fed rate cut — near historically low interest rates coupled with fears of a looming recession have made traditional income-producing investments unattractive, particularly for income-hungry investors.

An asset class that is continuing to attract significant interest is real estate investment trusts (REITs). One REIT which every investor should consider adding to their portfolio is **WPT Industrial REIT** (TSX:WIR.U).

Strong results

The REIT, which has gained 7.5% since the start of 2019 , recently reported some notable second quarter 2019 results. This included finishing the quarter with an impressive occupancy rate of 99.4%, 1.2% greater than a year earlier.

Net operating income (NOI) soared by 28% year over year to US$21 million, while funds from operations of US$13 million was a healthy 18% higher and net income of US$41 million was three times greater than a year earlier.

Those solid numbers can be attributed to a range of factors, including WPT Industrial's growing U.S. footprint, quality tenant base, rising rents and active development of existing properties.

Since the end of the second quarter 2018, the REIT completed a series of acquisitions which gave earnings a solid boost.

WPT Industrial has a high-quality tenant base for its portfolio of industrial properties, including General Mills, Continental Tire, Unilever and **Amazon.com** making up the top-four by percentage of total annualized base rent.

Such high-quality tenants reassures investors that WPT Industrial will not suffer from the issues that have beset retail REITs like **CBL & Associates** and **Washington Prime Group**.

Both retail REITs own a large number of tier two and three malls that have seen their business decimated by the collapse of a wide number of retailers that have been unable to survive the retail apocalypse triggered by the rise of Amazon and ecommerce.

It is here that WPT Industrial's key strength lies; the demand for light industrial properties is growing at a rapid clip because of online retailers need for logistical centres for their shipping operations.

There are analysts who believe that demand for industrial properties is already outstripping supply for this reason, which can only lead to higher rents which will boost WPT Industrial's earnings.

That will be magnified by the rapid uptake of online retailing among consumers, which is expected to grow by around 19% in value globally by the end of 2020.

WPT Industrial remains focused on investing in developing its portfolio and expanding its footprint through accretive acquisitions, having agreed to acquire four fully occupied properties for US$109 million earlier this month.

The REIT has a solid balance sheet where total debt equals a conservative 45% of gross book value and 7.6 times adjusted EBITDA. WPT Industrial's debt profile is well-laddered with no major maturities until 2023, when its US$32 million credit facility is due to mature.

The strength of WPT Industrial's financial position is important to note, as it enhances its operational flexibility.

Foolish takeaway

While WPT Industrial's strong earnings growth, robust balance sheet and positive outlook make it a must-own stock, patient investors will be rewarded by its regular distribution yielding a juicy 5.5% while they wait for it to appreciate.

That payment is clearly sustainable when it is considered that it has a trailing 12-month payout ratio of adjusted cash flow from operations of 98%.

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mattdsmith