



## My Top Stock for October!

### Description

I generally don't invest in a Real Estate Investment Trust (REIT) because I believe that those looking for added passive income have much [better choices elsewhere](#).

That said, **Summit Industrial** (TSX:SUN.UN) is a win in my books. Summit Industrial is a mutual fund trust involved in the commercial leasing of real estate property with locations in Ontario, Western Canada, Quebec and Atlantic Canada.

Its current dividend yield is 4.106%, which means \$10,000 invested at the beginning of the year held to year-end results in \$411 of passive income!

The company's portfolio of properties are focused on light industrial properties. These are one-story properties located near major cities and transportation. Tenants conduct activities such as warehousing and storage, light assembly and shipping, call centers, technical support and professional services.

Summit Industrial is worth the investment due to its strategic target market and increasing operating income.

### Strategic target market

As mentioned above, Summit Industrial targets a specific segment of the real estate industry. By focusing on light industrial properties, its revenues have increased from \$29 million in fiscal 2014 to \$92 million in fiscal 2018.

The company cites many reasons for focusing on this particular segment, which I will get into below.

First, the company has found that light industrial properties have lower market rent volatility, which is likely due to the low barriers involved in starting a business that requires the type of space offered by the company.

Second, these properties have lower operating costs. Given that there is no heavy industrial activities conducted, the cost of utilities and depreciation is much less compared to one made for heavy industrial use.

Third, these spaces are easy to market. Similar to the first point, as it's relatively easy to start a business that requires this type of space, it's [easy for the company to find tenants](#).

Fourth, the company cites that the tenant base is broad and diverse, and a variety of potential tenants means that there will be healthy demand for the properties.

Finally, light industrial properties have low capital expenditures and maintenance costs. Given the nature of the business being conducted inside the property, there won't be a huge demand for utilities, and the upkeep is much less than buildings used for heavy industrial purposes.

## Increasing operating income

Operating income has increased every year for the past five fiscal years.

From fiscal 2014 to fiscal 2018, operating income has increased from \$19 million to \$60 million which represents a compounded annual growth rate of 25.86%! This is a good sign for investors as it indicates that the company is growing its business which drives revenues and ultimately contributes to the company's bottom line.

## Summary

Summit Industrial clearly knows what it's doing.

By focusing on light industrial properties, Summit Industrial has demonstrated that it is a key player in the REIT industry. The fact that its target market is so specific is a benefit to investors as companies that serve a broad range of clients often lose focus which negatively impacts its bottom line.

The company's operating income is also increasing from \$19 million in fiscal 2014 to \$60 million in fiscal 2018. This suggests that the company is on an upward trajectory when it comes to growing its business.

If you're looking for a passive income stock to complement your RRSP or TFSA, this is the stock for you.

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1. TSX:SMU.UN (Summit Industrial Income REIT)

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1. Investing

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