This 8.7% Yielder Pays You Cash Every Month

Description

Many retirees are after the same thing. They want sustainable, long-term yields — the kinds of stocks that pay 6-9% consistently.

The naysayers say this can't be done. They'll argue there's no such thing as a consistent high-yield stock. The market has automatically labeled such names as risky, which means they're the financial equivalent of a ticking time bomb. Eventually, they'll cut the dividend, and investors will lose money.

I couldn't disagree more. Sure, many of these stocks are disasters waiting to happen. But many more aren't. They're in good industries, led by smart management teams, and are poised to pay sustainable high yields. Heck, some are even poised to deliver nice capital gains to investors, too.

Our job as investors is to separate the good from the bad, adding the former to our portfolios while avoiding the latter. There's one high-yield stock I particularly like today. This stock looks like it'll pay a succulent 8.7% monthly payout for years to come, without much of a hiccup. Let's take a closer look.

A boring stock in a boring industry

Real estate itself isn't a very exciting asset class, and grocery-anchored retail real estate is less exciting still. It's the kind of asset you buy to protect your money.

But I'd argue the sector is a sexier play than you might think. There are thousands of grocery-anchored retail developments across North America. A company can grow in a hurry by acquiring some of these assets. And I believe grocery stores won't be impacted as badly by online retailers. Even if online grocery delivery becomes a huge thing, your meat and produce will still likely come from the local supermarket.

These big macro trends are good news for **Slate Retail REIT** (TSX:SRT.UN), one of my favourite stocks on the whole Toronto Stock Exchange.

Slate focuses on real estate primarily occupied by grocery stores in the United States, usually in what it calls “secondary cities,” places like Atlanta, Charlotte, and Denver. These are big cities that are experiencing significant population growth yet still offer affordable real estate. They also offer pretty attractive returns on investment, which is really what investors should like.

It’s also a smart part of the market to be in. Grocery stores draw a lot of foot traffic. Other retailers in the same complex benefit from this constant stream of customers, even if it’s just to browse. Any good retailer knows this, which mean’s Slate’s occupancy should remain pretty high. It’s currently at just over 93%.

Slate has been selling off some non-core assets lately to both pay down debt and streamline the portfolio a bit, which means a new period of growth should be coming. The portfolio currently stands at 79 properties, spanning just over 10 million square feet. I’m confident Slate’s management team can put the capital to work in attractive opportunities.

A fantastic dividend

Many investors will focus on Slate’s current dividend, a payout of US$0.07125 per month. That represents a robust yield of 8.7%.

But it gets better. The company is poised to increase its dividend over the long term, although I should caution investors to not expect 8-10% annual raises. We’re looking at more like 2-3% yearly increases, which is still pretty good — especially for a stock that already offers such a high yield.

Two pieces of evidence lead me to believe more dividend raises are on the way. Firstly, Slate has already increased its payout several times since the stock’s 2015 IPO, including a $0.02-per-share raise already in 2019. Secondly, Slate offers a low payout ratio in the 70% of funds from operations range. That ensures plenty of wiggle room if there are ever unforeseen circumstances.

The bottom line

If you’re looking for a sustainable high-yield monthly payout, look no further than Slate Retail REIT. It also offers solid growth potential, a sharp management team (which has a significant ownership stake), an almost limitless growth market, and shares trade at a discount to net asset value.

There’s a lot to like here, and it’s not just the 8.7% yield.

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