TFSA Investors: This REIT Can Turn $69,500 Into $8,600 a Year

Description

Come 2020, Canadians who were of age when the TFSA came to be over a decade ago will have the ability to turn their TFSAs into a tax-free income stream that can pay at least $8,600 per year with extremely high-yielding securities like **American Hotel Properties REIT** (TSX:HOT.UN) and its 12.5% yield.

This goes to show how powerful a wealth-creating tool the TFSA has become just 11 years later.

But just because you *can* score $8,600 in tax-free income doesn't mean you should. HOT is an extreme example of a super-high yielder, but as a promising speculative bet, I think the REIT offers aggressive young investors an opportunity to have their cake (a massive dividend) and eat it too (capital gains from a rebounding of shares).

Like with any double-digit yielder, HOT undoubtedly comes with its fair share of risks. And it's vital to ensure proper due diligence before initiating a starter position in the REIT, let alone nearly $70,000 in TFSA funds.

So, if you're a relatively new investor, this name is not for you unless you've got the "mad money" to speculate with, and you're not within 10 years of your expected retirement date.

With that warning out of the way, let's look into HOT and see if the 12.5% yielder is a reckless speculation like a marijuana stock or a credible rebound story that could enrich contrarians.

A ridiculously HOT distribution

HOT is a high-risk/high-reward hotel real estate kingpin that has one of the largest dividend yields that's not in immediate danger.

There's a high chance that the distribution may not survive over the next few years if management can't deliver on its turnaround plan. And with a distribution cut or reduction will surely come substantial share price depreciation, so understand that HOT is a very risky play that's only practical for those who are no strangers to volatility.

In short, if you're dependent on the income to support your lifestyle, HOT is not for you. But if you are a patient, long-term thinker who's looking to pay a dime to get a dollar, HOT may be one of the best speculative, deep-value bets on the TSX Index today.

The REIT is making progress with its Property Improvement Plan (PIP), with many projects coming under budget — a major plus for a REIT that's as financially strapped as HOT is with its colossal distribution obligation.

More recently, HOT announced it had closed an acquisition of 12 premium-branded hotels in a deal worth $191 million (which is sizeable for HOT considering it has a market cap of just $534 million). The deal gives HOT more exposure to the red-hot U.S. market, and the suite-focused and extended-stay nature of the new properties is expected to bolster margins.

HOT's gravitation away from economy lodging and towards the premium hotel market bodes well for AFFO generation over the long haul. Add potential synergies into the equation and HOT's massive distribution may not only be safe; it could be subject to further growth over the next five years should the right cards fall in place.

Over the past year, insiders have been eating their own cooking, with over $4.5 million in net buying activity. I think aggressive deep-value investors ought to follow in their lead as HOT has a solid turnaround plan in place, and it's one that could pay massive dividends!

Foolish takeaway

In theory, you could turn $69,500 into $8,600 a year with a name like HOT. If you're a young investor who's pleased with HOT's turnaround trajectory, I'd look to build a position gradually over time.

Chasing yield is a dangerous game, but given HOT's improving fundamentals, I think it's one of few super-high yielders that isn't a sinking ship in its current state. Thus, HOT is a speculative buy for those with the risk tolerance.

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joefrenette