TFSA Investors: This 8.9% Yielder Pays You Cash Every Month

Description

Even if you're close to retirement age, your TFSA can still be an effective wealth building tool.

You should be maxing the account out each year, stuffing it full of great income-producing stocks. Then, once you decide to hang up the proverbial skates for good, the account is ready to generate gobs of passive, tax-free income. All that's left to do is to start collecting dividends, rather than reinvesting them.

If I were looking to create a passive income stream in my TFSA, I'd stuff the account with some of Canada's best high-yield stocks. If you can average an 8% yield, that alone would generate more than $5,000 per year in sweet passive income, assuming you started with a $63,500 TFSA. That's the most you can contribute today assuming you've never put cash to work in the account until now.

Here's one stock that would look good in anyone's TFSA, a company that pays a sustainable 8.9% yield. Let's take a closer look at this firm that will pay you cash every month.

Boring real estate

Slate Retail REIT (TSX:SRT.UN) is hardly in a sexy business. In fact, it's one of the reasons why I like the stock so much.

The company buys grocery-anchored retail real estate in what it calls "secondary" U.S. cities, places like Atlanta, Denver, or Orlando. In total, it owns 79 different properties spanning some 10.2 million square feet of gross leasable space.

There are a few reasons why I really like this approach. Let's start with the stability; there are few industries more recession-resistant than grocery stores. In fact, that's one of the sectors investors start to buy when it's time to get defensive.

Some naysayers say grocery stores are about to be displaced by online competition, but I see the opposite happening. Existing stores will be used as distribution centers by existing chains to deliver online orders to customers.

It's only a matter of time until leading U.S. grocers start getting into this part of the market. Besides, it'll take years for this trend to really catch on.

Finally, these locations have good embedded rental growth, with most leases signed with some sort of inflation protection in place. Occupancy is also protected by the nature of the business; it's a lot of work to close down a grocery store.

What about the numbers?

Slate has been consistently improving its occupancy numbers over the last year, with occupancy up to 94.4%. It has also increased the average rent on renewing leases for the 15th quarter in a row. Net income growth over the last 12 months was 1.8%, which is pretty solid.

Next, let's look at the stock's valuation. Slate trades at just over eight times its estimated 2019 funds from operations. This makes it one of the cheapest REITs on the entire **Toronto Stock Exchange.** Some of its peers trade as high as 15-20 times funds from operations.

Next, let's look at the stock's dividend yield, which currently stands at a robust 8.9%. Most REITs with a yield this high are in danger of slashing the payout, but not Slate.

The payout ratio is just over 70% of 2019's estimated funds from operations. That's in line with its peers, most of whom have dividend yields in the 5-6% range.

Finally, Slate's shares also trade at a discount to net asset value. Its U.S.-dollar listed shares currently trade hands at US$9.80 each at writing, while net asset value is US$10.89 per share.

The bottom line

I believe that Slate shares have at least 10-20% upside over the next 12-18 months as shares approach net asset value and trade at a closer valuation to its peers.

In the meantime, investors are treated to one of the highest yields on the entire TSX, a sustainable payout that should provide them with cash every month for years to come.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SGR.UN (Slate Retail REIT)

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