



Forget Hexo (TSX:HEXO) Stock! This High-Yield Dividend Stock Is a Sure Winner

Description

Hexo's stock price has tumbled about 80% from its high. Buying cannabis stocks is like going on a roller-coaster ride with your eyes closed — you don't know when you'll fall or be upside down in a loop.

For more certain returns, invest in **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY).

Price action

Hexo investors probably don't care about fundamentals, because the company is still losing money. They're dominated by traders who look at the technical charts and the price action of the stock. It's beneficial to do this as a part of the analysis for fundamentally sound stocks.

Before discussing Brookfield Property's fundamentals, let's take a look at the stock's price action. Since BPY stock was listed, it has pretty much traded sideways.

I believe that the stock is accumulating strength and will eventually break out. Actually, the real estate stock seems to be at the initial stage of breaking out, as it has popped more than 5% in the last week.

A safe dividend yield of 6.9%

Brookfield Property's [steadily growing payout](#) suggests it's fundamentally strong. In the past five years, the real estate stock increased its cash distribution by 32% on a per-unit basis. That works out to be 5.7% per year — more than twice the inflation rate!

The stock originally offered a dividend yield of about 5%. Thanks to the stagnant stock price and growing cash distribution, it now offers a massive yield of close to 6.9%.

The high-yield dividend stock will become more valuable, as it keeps on increasing its payout over time.

What supports BPY's dividend

Brookfield Property's cash distribution is supported by a mammoth international real estate portfolio that's diversified across office, retail, multifamily, industrial, hospitality, triple net lease, self-storage, student housing, and manufactured housing assets.

The portfolio consists of US\$193 billion of assets under management, including properties in Canada, the United States, Brazil, Europe, the Middle East, and the Asia-Pacific region.

Brookfield Property has historically generated funds from operations (FFO) growth of roughly 8% per year on a per-unit basis. This has allowed it to boost its payout by close to 6% per year in the period with a sustainable payout ratio of about 70%.

The real estate company also earns substantial gains from its opportunistic investment portfolio. As this portfolio grows larger over time, it's able to book more massive gains. Meanwhile, it generates nice cash flows from the mispriced assets.

Over the next five years, BPY aims for FFO growth of 7-9% per year, which would support its goal of growing its cash distribution by 5-8% annually.

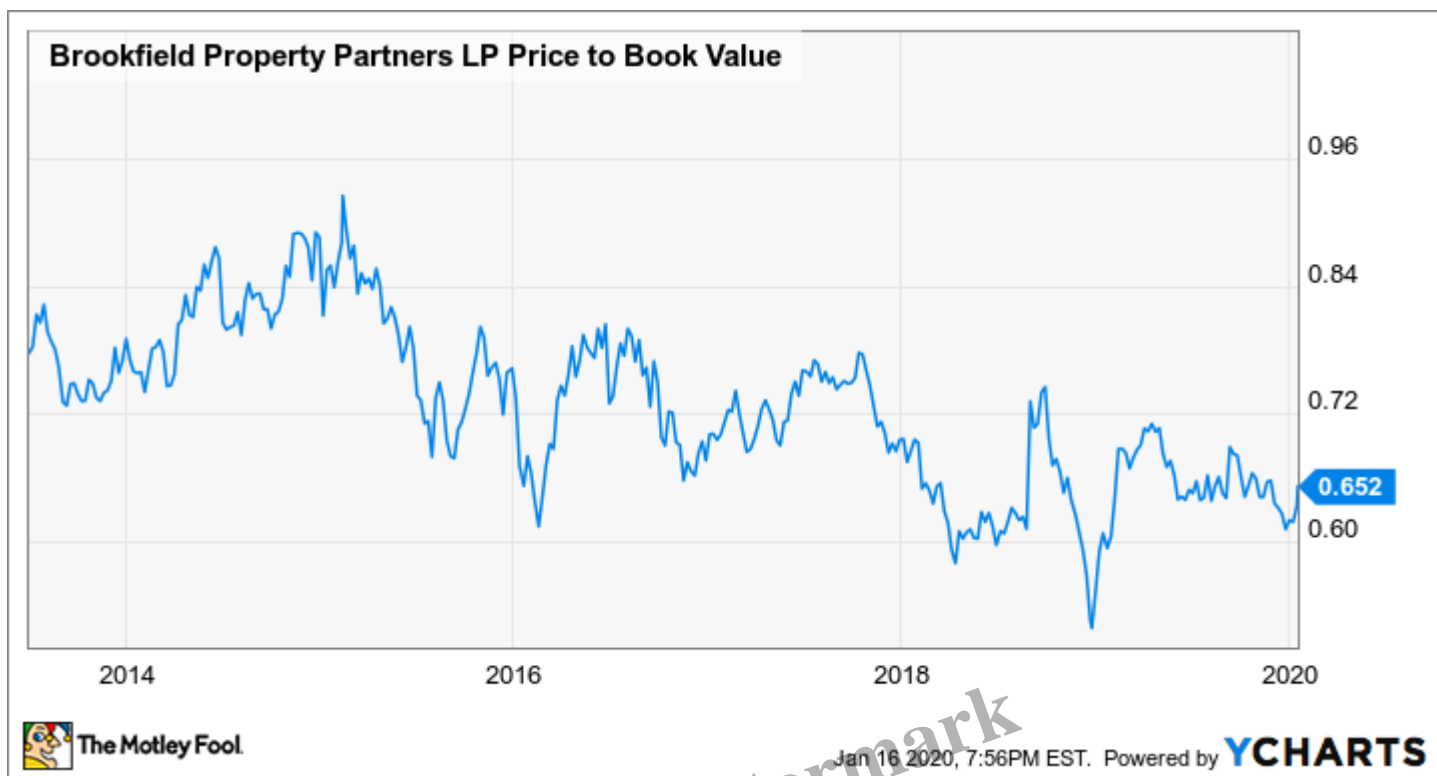
Secure returns

According to Yahoo Finance, Hexo stock has a high beta of 4.7. In comparison, BPY stock is much less volatile with a beta of 0.9. If you bought Hexo stock at the wrong time, you would be in deep water.

However, if you did the same in BPY stock, the worst-case scenario is that you'll get a low yield, but eventually, you'll still get your investment back (and more) from the cash distribution alone.

Additionally, BPY's stock price will also inevitably climb higher, as it steadily increases its payout.

BPY management aims for long-term returns on equity of 12-15%.



BPY price-to-book value data by YCharts. BPY's book value since it was listed.

Since its listing, BPY has traded between a book value range, as shown in the graph. A book value of 0.76 times implies a fair value of roughly US\$21.74 per unit. So, the stock trades at a discount of about 12%, which will also add to its long-term total returns on price-to-book expansion.

Combining BPY's current yield, growth prospects, and valuation expansion potential, an investment today can deliver [attractive total returns](#) of about 14-17% per year.

Although the worst-case scenario of investors only getting a yield of roughly 6.9% is highly unlikely, it wouldn't be too shabby at all, given the average market return is 7%.

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