Year of the Rat: 3 Dividend Stocks to Invest in to Ride 1 Megatrend

Description

Today officially marks the first day of the Year of the Rat. Unfortunately, it's not so much of a Happy Chinese New Year — at least for the start of the year.

As of writing, we're bidding farewell to the Year of the Pig, but sadly, originating from Wuhan, China, there's a coronavirus outbreak, which had already taken at least 17 lives and sickened more than 470 since late December, according to a *New York Times* article published on January 22.

Could the outbreak be a bad omen for the market in the Year of the Rat? Or will we be leaving the bad spirits behind in the Year of the Pig?

Superstition aside, in terms of investing, it's always safer to have our eyes set on the long term. Here's one megatrend you can count on to grow your stock portfolio for the next decades: urbanization.

As an increasing percentage of the Canadian population moves to the cities, the following stocks should benefit.

SmartCentres REIT

Geographically, 87% of **SmartCentres REIT's** (TSX:SRU.UN) gross revenues come from large and stable provinces like Ontario (63% of gross revenues), Quebec (14%), British Columbia (8%), and Saskatchewan (4%).

Its recent high portfolio occupancy of 98% is not a one-off, as its top tenants include super-stable consumer staples like **Walmart**, **Canadian Tire**, **TJX**, **Loblaw**, and **Lowe's** that contribute roughly 39% of its gross rental revenues. Despite a challenging retail environment, the REIT was able to increase its net rental rate by 1% year over year.

The quality retail REIT is only at the infancy of its urbanization journey. It first included mixed-use properties in its strategic plan in 2016.

Since then, its funds from operations (FFO) per unit, which are sort of like earnings per share for a company, haven't really budged.

That may be about to change, as SmartCentres appears to get its diversified intensification plans, including apartments, self-storage, and senior housing, over the next few years. In fact, analysts are calling for 6-7% FFO per unit growth over the next two years.

Currently, close to 60% of SmartCentres's 157 properties are marked for intensification (with the remaining properties under review for intensification opportunities), as there's a need to upgrade properties to cater for a rising population in the cities.

Reasonably valued SmartCentres REIT stock offers a yield of 5.7% for starters. If the 6-7% growth rate materializes, buyers today could experience total returns of roughly 11-13% over the next couple of years.

Telecom and utility stocks

Telecom and utility stocks like **TELUS** and **Fortis** will benefit from an increase in population density. They already have the infrastructure to provide the needed products and services (phones, internet, electricity, and gas). The more the number of people who live in areas they serve, the greater their revenue will be.

Additionally, they're able to increase prices at rates greater than inflation year after year. Therefore, TELUS and Fortis stocks have long track records of increasing their dividends. In the past three years, they increased their dividends by 6-7% per year. Currently, they offer safe yields of 4.5% and 3.3%, respectively.

Both stocks have run up recently. Risk-averse investors should seek to buy shares on dips of at least 7-10%.

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