



TFSA Income Investors: 1 Ultra-High-Yield Canadian REIT to Check Out Today

Description

For some time, the market has been anticipating that management could do the usual thing and cut the monthly distribution when **American Hotel Income Properties REIT's** ([TSX:HOT.UN](https://www.tsx.com/stocks/quotes/HOT.UN)) (AHIP) units took a heavy beating between mid-2017 until December 2019 and the annualized distribution yield soared beyond the 13% level.

But nothing was done to the distribution, and insiders were actually net buyers into the real estate investment trust's (REIT) units during the period, meaning they probably strongly believed in their cooking, even if it would take longer to turn around and reconstitute AHIP's poorly performing portfolio, which faced a drag from economy hotels that targeted railroad personnel.

The REIT's untouched U.S. dollar-denominated monthly distribution yields a staggering 11.8% at the time of writing, and there are strong signs that it could be sustained well into the future.

Should we Buy AHIP's nearly 12% yield today?

Significant changes have taken place at AHIP over the past two to three years.

The REIT recently concluded the sale of its underperforming railroad assets, and the proceeds were used to acquire a very young portfolio of premium-branded hotels built within the past five years. Its portfolio is now comprised of 79 premium-branded hotel assets strewn across the United States's secondary metropolitan markets that benefit from stable demand.

Operated under the brands affiliated with Marriott, Hilton, InterContinental Hotels Group, Wyndham, and Choice Hotels through licence agreements, the trust is likely to fare better against its competition in the premium hotels space with its recently renovated assets and younger and more modern furnishings, fittings, and amenities.

Management has done away with the performance drag from the economy hotel assets, and we could see improving financial performance from the completely transformed portfolio going forward.

Property renovations are largely complete on several individual hotel buildings, meaning that the negative cash flow impact of the “down times” is gone now. Actually, the new and refreshed looks and feel of the renovated rooms could actually attract more bookings than before.

Analysts expect the REIT to see a return to better cash flow generation in the near future, even as competition within the industry remains intense and high labour costs maintain pressure on margins.

Excluding those properties that were under renovations during the first nine months of 2019, same-property net operating income on premium-branded hotels was up 2.7% during the second quarter and 5.1% higher during the third quarter of last year. We could witness a better 2020 after the recent complete disposal of underperforming assets.

Further, as renovation expenditures decline going forward, more funds from operations could be freed up to cover the distribution while management’s recently amended agreement with the trust’s third-party hotel manager could result in some near-term cost savings and free up more cash flow this year.

Although the payout rate on adjusted funds from operations (AFFO) had surged beyond ideal levels for 2019, management has been guiding for it to fall close to 90% by 2021.

Maybe the distribution could survive a chop, and if so, we may have a juicy yield booster ripe for harvesting in a TFSA today. This is especially so if the external environment plays nice with the trust going forward.

Foolish bottom line

AHIP’s distribution yield is an enticing but aggressive pick today. It’s not as safe as this [recent recommendation](#), and there’s still some significant risk of a cut if the turnaround plan faces external environment headwinds, but the trust’s portfolio is much better after a strong transformation.

Investors should closely watch the general health of the United States economy, labour costs, and a new hotel supply growth within the trust’s target markets, as these will strongly influence portfolio performance going forward.

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