TFSA Investors: This 11.7% Yielder Pays Cash Every Month

Description

I'm a big advocate of amassing a passive real estate portfolio that encompasses all sorts of different types of assets.

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There's a lot of logic for building such a portfolio inside your TFSA. It can be annoying figuring out your tax liability — especially if you own many different REITs — which makes stuffing them all in a TFSA an easy solution. The income generated by these assets can be reinvested into more REITs when you're in the accumulation phase and then used for living expenses once you enter retirement.

Many people have a goal of amassing a small portfolio of property for their retirement. A TFSA stuffed with REITs is the much better choice. It delivers comparable income without having to worry about all the headaches of managing property. Oh, and such a portfolio would also deliver tax-free income.

Let's take a closer look at one REIT that I own as part of my TFSA income fund — an 11.7% yielder I think many investors misunderstand.

Solid assets

American Hotel Income Properties REIT (TSX:HOT.UN) has transformed itself over the last half-dozen years. It started out owning budget hotels located in railroad towns before slowly starting to transition the portfolio into something more upscale. The company today owns 79 different hotels in secondary U.S. cities, locations like Cincinnati, Tampa, and St. Paul. The budget hotel properties were just recently sold.

The company really likes these medium-sized cities, because there's so much expansion opportunity. It owns just under 9,000 guestrooms today. The total size of the U.S. secondary cities hotel market is 3.4 million guestrooms. Needless to say, there's a lot of expansion potential there.

Underlying results haven't really been up to par lately, depressed by an aggressive renovation program. As part of the deal to acquire certain properties, the company agreed to spend millions on revamping these locations. It spent US$4.2 million to upgrade a property in Phoenix and US$2.2

million in Allentown, PA, in 2019. It also spent aggressively on renovations in 2018.

These costs hit the company's bottom line, which caused investors to worry about the generous dividend. As it stands now, the company has earned US$0.71 per share in funds from operations over the last four quarters. Its dividend is US$0.64 per share on an annual basis, which works out to a 90% payout ratio. Management is more confident than this, telling investors the true payout ratio is closer to 70% now that the renovation program is largely finished.

This bodes well for the company's succulent 11.7% dividend. It looks to be sustainable, which isn't something you can say about most payouts that high.

The stock is incredibly cheap from a price-to-earnings perspective, too. American Hotel Income Properties U.S. dollar-listed shares trade hands for US$5.60 each on the Toronto Stock Exchange. We'll use its funds from operations as a proxy for earnings. That gives us a price-to-earnings ratio of just 7.9 times.

But remember, earnings should increase in 2020 because the renovation program is finished. Funds from operations could easily increase to US$0.90 per share in 2020, putting shares at just 6.2 times forward earnings. You won't find many stocks cheaper than this one.

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The bottom line

American Hotel Income Properties REIT offers one of the best dividends out there, a US$0.054 monthly payout that equals an 11.7% annual yield. The payout should be sustainable going forward.

This stock also features solid growth potential, a collection of good assets, and a super-cheap valuation. It's the perfect stock to stick in your TFSA for long-term income generation.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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Date
2025/08/23
Date Created
2020/01/31
Author
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