



TFSA Investors: 1 Recession-Proof Stock to Help You Retire Wealthy

Description

When stock markets knock out six months of gains in a few weeks, it really hurts. It can especially hurt if your portfolio was only positioned in a few high-flying technology names. While there is nothing wrong with holding high-flying technology stocks, it is imperative that they are balanced within a diversified portfolio. Volatile times make it a crucial time to consider your portfolio's composition, evaluate its risks, and potentially add some diversity or balance to your portfolio.

A diversified portfolio hedges your risk against any one business, environment, economic, political, or global shock. Different businesses thrive in different environments, and diversity can help you stabilize your returns. While holding a few high-growth names is great when the market is roaring, [exposure to well-capitalized, dividend-paying stocks](#) ensure you still get rewarded even when markets turn ugly. Holding 10 to 15 stocks (or a few diverse ETFs) that are relatively uncorrelated in asset class, sector exposure, and/or geographic exposure can both help you preserve and cultivate your wealth over a long time horizon.

Today, I have a REIT that has a diversified business platform. It pays a growing dividend and has the opportunity to unlock lasting gains for its shareholders. Considering this, it would be a great income/safety/growth pick to set up in your TFSA portfolio.

Granite REIT

Hence, I introduce **Granite REIT** ([TSX:GRT.UN](#))([NYSE:GRP.U](#)). In a choppy stock market, [a REIT is a wonderful place to hide and be safe](#). Even if the stock market were to drop 5% in one day, the intrinsic value of a REIT's assets doesn't change, nor does the consistency of its long-term contracted rents (6.5 years on average in the case of Granite).

This is why Granite, like its name, is solid. Many might think of it as just the **Magna International** spin-off REIT. However, over the past few years, Granite has transformed into one of Canada's largest and highest-quality industrial REITs. With 85 industrial, logistics, and e-commerce properties (about 40 million square feet of leasable space) across Canada, the U.S., and Europe, Granite provides a diverse portfolio of operating properties.

2019 was a strong year for Granite. It saw NOI increase by 9.6% (same-property NOI was up 4.5%), adjusted funds from operations increased 17.3%, fair-value gains resulted in a 60-basis-point reduction in its capitalization rate (6.7% to 6.1%), and a nice total shareholder return of 30%. Granite continued to reduce exposure to its largest tenant, Magna, from 54% of revenue to 42%. It also acquired eight million square feet of newer quality logistics space leased to credit grade tenants like **Amazon** (who is now its second-largest tenant).

Granite has the potential to outperform the REIT index for the next few years. Below are a few reasons why.

Firstly, it has a tremendous balance sheet. Its net leverage ratio is only 21%. Exposure to Europe enables Granite to arbitrage overall portfolio financing at very attractive interest rates (between 1% and 1.5%). A recent refinancing of a \$300 million term loan saw its coupon rate drop by 80 basis points, which will accrete around \$0.04 FFO/unit to future earnings. We can expect any new financings should be similarly attractive in this plummeting-rate environment.

Secondly, developing and acquiring high-quality e-commerce properties should provide a long runway for growth. With such an under-levered balance sheet, Granite could deploy up to \$1 billion of debt capacity, while still maintaining leverage below 40%. With consumers increasingly digitizing their purchases, e-commerce logistics facilities should continue to be a large opportunity for Granite for many years to come.

Thirdly, Granite's valuation is very attractive. It trades at a 30% price/AFFO discount to U.S. peers and about 10 basis points lower on a price/NAV basis. I think the market still sees Granite as the "Magna REIT," when, in fact, it has significantly diversified its tenant exposure and asset quality.

Finally, Granite pays a 4% yield, which grew by 3.6% last year. The dividend stands safe with a AFFO payout of 81%. As new acquisitions/development roll into 2020 results, investors should see the payout continue to drop and/or the dividend continue to grow. All in all, this makes Granite REIT a resilient place to fasten your money and steadily get rich.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GRT.UN (Granite Real Estate Investment Trust)

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