Income Investing: Should You Trust These TSX REITs?

Description

The recent market volatility has been whipping stock prices around. For those focused on income investing, it's a hard time to find secure and stable yields.

This is because beyond the market's behaviour, the underlying economy is in peril. In fact, the economy has been halted for months now.

Of course, this means missed rent payments and mortgage deferrals. As such, REITs have been put in a tough position, as their cash flows are drying up.

This might mean income investing with TSX REITs is a risky venture at this time. However, some REITs are positioned in unique ways that will allow them to fare better than others.

Today, we'll look at two REITs and whether or not investors can trust them in these tough times.

H&R

H&R REIT (TSX:HR.UN) is one of the largest REITs operating in Canada. It has a diverse mix of assets in the office, retail, industrial, and residential spaces.

As of writing, this REIT is trading at $9.16. It was trading as high as $20.39 as recently as March 5. So, H&R seems to have fallen quite a ways and could be a solid pick for income investing.

Part of that fall might be attributed to scares over missed rents. However, H&R collected more rents in April than one may think.

This REIT was able to collect 83% of its total rents for April. Plus, it stated it feels very confident it will collect the vast majority of deferred rents at a later time.

It seems like the drop in price is a bit steep considering it only took a 17% reduction in rents collected, with confidence of recouping them later as well.

However, for those focused on income investing, this price drop means H&R offers a massive yield. As of writing, this REIT is yielding an eye-popping 15.06%.

Now, with a payout ratio of 116% and the aforementioned drop in rents collected, it's entirely feasible that H&R will cut its dividend. However, even in an extreme case where there was a massive 50% cut to the dividend, it would still be 7.53%.

Plus, H&R is so well-capitalized, I'd expect any dividend cuts to be short-lived. In fact, it was even able to secure $425 million in credit recently from four of Canada's major banks.

All in all, H&R seems to have taken too large of a haircut, but investors should be prepared for potential short-term dividend cuts.

Income investing: Choice Properties

Choice Properties REIT (TSX:CHP.UN) is another large Canadian REIT. It mainly focuses on its retail positions but has a mix of other properties as well.

While being largely committed to retail may sound like trouble right now, Choice's retail properties are anchored by **Loblaw**.

So, while Loblaw continues to chug along through tough times, rents will be paid, and cash flows will continue for Choice.

Couple that with the fact Choice's payout ratio is about 30%, and I'd expect Choice's 6.04% yield to be quite safe.

However, Choice seems to be trading at a rich multiple. Its P/E ratio for the trailing 12 months is 5.79, and as of writing it stands at 13.04.

So, anyone looking to start income investing with Choice should be mindful that you will pay for the security of its yield by way of a rich multiple.

Income investing strategy

When you're looking to generate cash from income investing, REITs are generally great options.

H&R and Choice are two top TSX REITs that are appealing to investors today. With H&R, investors can latch onto a well-capitalized REIT with a big yield but with potential to cut its yield.

While with Choice, you're picking up quite a safe yield due to Choice's relationship with Loblaw but at a fairly rich valuation.

With those advantages and disadvantages in mind, those targeting income investing can pick the top REIT that's best for their portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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