



Income Investors: \$10,000 in This Stock Pays \$1,050 Per Year

Description

Today is a great time to be an income investor.

Despite the stock market already [recovering](#) smartly from March's lows, there are still plenty of dirt-cheap value stocks that are paying investors handsomely. We're talking double-digit dividend yields here.

Many income investors worry about +10% dividend yields, claiming that every double-digit payout is automatically unsustainable. Often, this proves to be the case, but I think there are exceptions to this rule today. Many solid stocks are beaten down because of COVID-19 worries, issues that may end up being nothing but a distant memory a few years from now.

Let's take a look at one such stock that should entice income investors, a company that pays a generous 10.5% distribution. That's enough to generate \$1,050 in annual income for every \$10,000 invested.

The skinny

Automotive Properties REIT ([TSX:APR.UN](#)) is the owner of car dealership real estate — assets that are then rented out to various dealership operators. As it stands today, the portfolio consists of 64 different properties spanning more than two million square feet of gross leasable space. Some 80% of the portfolio is located in Canada's six largest markets, and the underlying dealerships represent 32 different car brands.

After COVID-19 worries end up in the rear-view mirror, Automotive Properties should resume its interesting growth trajectory. Many smaller dealership operators have been selling to the major consolidators, who then flip the real estate to Automotive Properties as an effective way to free up cash.

Don't discount this growth opportunity. There will likely be +1,000 dealerships changing hands over the next decade or so.

One advantage to leasing these specialty properties back to car dealerships is the latter party is interested in a long-term contract. That's exactly what income investors like to see. In fact, the average lease today is longer than a decade, and built-in rent escalators protect investors from inflation.

How is COVID-19 impacting the business?

Although car dealerships remained open, as the rest of the economy skidded to a halt, there's little doubt the average dealership was ravaged by the virus's impact on the economy. That doesn't bode well for an auto dealership landlord.

But it's not all bad news. Dealers will likely get through this crisis. Remember, cars still need to be fixed, and the service part of the dealership makes the most profit. And large dealership groups won't want to abandon good locations just because of a few bad quarters. These businesses will do everything they can to stay open.

Investors are also speculating a post-COVID world will be one where people drive more miles and take public transit less. That's good news for the dealership industry.

More specifically for Automotive Properties, the company has announced it has collected approximately 75% of rents owing in both April and May. That's likely much better than most investors would have expected.

The best part for income investors

Finally, let's talk about the company's [succulent dividend](#). The current payout is \$0.80 per unit on an annual basis, which works out to a 10.5% yield.

The company has taken steps to ensure it can make it through this dark period without cutting the dividend. The organization had nearly \$100 million in available credit and cash on hand before the crisis hit. It also has some \$100 million worth of unencumbered properties it can always borrow against.

The distribution, meanwhile, works out to approximately \$30 million per year. As you can see, it can afford to keep the dividend going for a while, even if earnings collapse to zero.

The bottom line

Income investors, rejoice. Automotive Properties offers a nice dividend, a sustainable payout, access to a solid industry, and a compelling long-term growth opportunity. This is one stock you'll want to buy today before shares go back up and you miss out.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. TSX:APR.UN (Automotive Properties Real Estate Investment Trust)

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