Is This 14.1% Dividend Stock Too Good to Be True?

Description

The coronavirus crash was difficult to stomach. The recent market rally has provided much-needed relief, but not all stocks have recovered. Some high-quality businesses remain bargains. One dividend stock in particular looks too good to ignore.

Brookfield Property Partners LP (TSX:BPY.UN)(NASDAQ:BPY) is one of the largest real estate owners in the world. Its assets span several continents and dozens of property types. You likely recognize some of its prized assets, including First Canadian Place in Toronto, Canary Wharf in London, Brookfield Place in New York City, Potsdamer Platz in Berlin, and the Fashion Show complex in Las Vegas.

Despite owning world-class properties, this dividend stock now yields 14.1%. That's enticing considering the company *raised* the payout just two quarters ago.

This could be a fantastic opportunity for income investors. But one question begs to be answered: is this dividend too good to be true?

Here's the truth

Brookfield has been a reliable dividend stock since its founding. In 2013, the year of its founding, the company issued an initial US$0.1277 per share quarterly dividend. The very next quarter it *doubled* the payout. In 2015 it also increased the dividend, and again in 2016, 2017, 2018, 2019, and 2020. It's never once lowered the payout.

Historically, this dividend is rock solid. But how impactful will the coronavirus be?

Brookfield's real estate portfolio is mostly office and retail space totalling 80% of its assets. The remaining 20% of the portfolio is a broad mix of classifications. But make no mistake: Brookfield will live or die based on its office and retail holdings.

Retail has been slammed by the recent economic downturn. Physical foot traffic is hovering around all-time lows. Offices, meanwhile sit vacant, with the vast majority of the workforce working from home. How many companies are ultimately forced to downsize remains unknown. The number of workers who will remain remote indefinitely is also unclear.

Thus far, Brookfield's future as a reliable dividend stock has been mixed. April rent collections for its office and multifamily portfolio (roughly half of its assets) averaged above 90%. Its retail portfolio (roughly 40% of its assets) saw rent collections of just 20%. That's a stomach-churning drop.

When conditions normalize, cash flow should revert to previous levels. But that could take *years*. Is it really time to trust this 14.1% yield?

Trust this dividend stock

Last week, Brookfield held its quarterly conference call. We learned first-hand what the future of the dividend will be.

"Regarding our distribution, as we've stated in the past, our policy is based on a long-term view of our business with a healthy respect for the cyclicality of economic and real estate cycles," CEO Brian Kingston began. "While a prolonged economic contraction would impact cash flow in the longer term, we continue to have more than sufficient resources to pay our stated quarterly dividend. As such, our board of directors today has approved the declaration of our regular $0.3325 per unit distribution."

Despite a steep drop in retail rental income last quarter, the business still generated $0.33 per share in cash flow. That's just enough to cover the dividend payment, but leaves little for growth or reinvestment.

If the downturn persists beyond 2020, expect an eventual dividend cut. But if the impact is relegated to 2020 alone, this unbelievable 14.1% dividend should remain intact.

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Date
2025/08/22
Date Created
2020/05/22
Author
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