TFSA Users: $10,000 in This 10% Dividend Stock Pays $1,000/Year

Description

TFSA (Tax-Free Savings Account) users need to welcome every opportunity to earn incremental income and boost their account balances. The ongoing market volatility presents long-term investors an ideal opportunity to build wealth. While the TFSA contributions are not tax deductible, any withdrawals in the form of capital gains or dividends are tax-free.

RioCan REIT ([TSX:REI.UN](#)) is one of the hottest dividend stocks on the TSX. The REIT pays a 10% dividend, which means a $10,000 investment will generate $1,000 in annual dividend payouts.

Dividends can be insignificant in the short term but have the potential to create considerable wealth if reinvested. For example, if you invested $50,000 in RioCan REIT today, the investment will balloon to $325,000 in 20 years if the yield remains the same. Further, investors can also benefit from capital appreciation over the long term, making these stocks ideal for your TFSA.

The TFSA needs to hold a basket of stocks that diversifies risk. REITs provide investors access to the generally illiquid real estate market where transaction costs are high and the capital requirement is huge.

A multi-billion-dollar bet for your TFSA

RioCan REIT is one of Canada's largest trusts with a market cap of $4.6 billion and an enterprise value of $11 billion. It owns, manages, and develops retail-focused properties located in high-density markets. RioCan has a portfolio of 222 retail and mixed-use properties with a net leasable area of 38.6 million square feet.

This REIT [aims to deliver](#) stable cash distributions to unitholders. Its occupancy rate stands at 97.3%, while 75% of sales are generated from "necessity-based and service-oriented tenants."

RioCan generates 90.2% of annualized revenue from six major Canadian markets. It gets 51% of sales from Toronto while Ottawa, Calgary, and Edmonton follow at 12.4%, 10.2%, and 7.2%, respectively.

Due to its exposure to Canada's major cities, RioCan has seen its average net rent per square feet rise from $17.11 in 2015 to $19.77 in the first quarter of 2020. It has a diversified property mix, and no single tenant accounts for over 5% of annualized rental revenue.

RioCan stock has slumped 50% in the last three months. However, it is well positioned to tide over the COVID-19 pandemic due to the defensive nature of its rental portfolio. According to RioCan's recent presentation, **Canadian Tire** accounts for 4.9% of annualized rental sales. Other defensive companies such as **Loblaw**, **Walmart**, and **Dollarama** also account for 4.4%, 2.6%, and 1.5% of annual rental sales.

A look at RioCan's financials and valuations

RioCan has a debt-to-adjusted EBITDA ratio of 8.22 and wants to bring this ratio below eight. Its debt-to-total-assets ratio is 43%, while the management has targeted this multiple between 38% and 42%. RioCan REIT has a forward price-to-earnings multiple of 8.5, a price-to-sales multiple of 3.3, and a price-to-book ratio of 0.53.

We can see that RioCan stock is trading at a low valuation given its forward yield. The COVID-19 pandemic will weigh on the company's stock price over the next few months. RioCan's management stated that it collected 66% of the total rent in April, and this number can move lower in May. Its portfolio also includes residential properties, but with the unemployment rates rising, this segment might see experience decline as well.

If Canada's economy re-opens, investors can expect RioCan stock to gain momentum in the second half of 2020. The company's defensive portfolio, cheap valuations, and tasty dividend yield makes it a strong pick for your TFSA.

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