



This 13.9% Dividend Stock Comes With Huge Upside Potential

Description

Many investors worry about high dividend stocks for a couple of important reasons.

The most important reason is the security of the payout, of course. Nobody wants one of their stocks to cut the dividend, especially retirees who buy these names for the income. A dividend cut might mean less food on the table. It's a big deal.

But there's another reason investors should stress about their dividends. A dividend cut is usually accompanied by a sharp decline in the share price. The correlation is simple: a dividend cut happens because earnings are down. And since stocks are valued on a multiple of their earnings, any adjustment in the bottom line will send the share price cratering. This has the greater impact on your portfolio.

What happens is many stocks sell off in preparation of a dividend cut as nervous investors hit the *sell* button and ask questions later. Usually, this reaction makes perfect sense. But sometimes it doesn't, and investors get the opportunity to pick up a stock featuring both a [high dividend yield](#) and solid upside potential.

I think that situation is taking place right now with **Slate Retail REIT** (TSX:SRT.UN). Here's why you should be excited about this stock.

The skinny

Slate Retail REIT owns grocery-anchored retail real estate in the United States, focusing on medium-sized cities and their suburbs because there are fewer buyers in these areas, despite cities like Atlanta, Charlotte, and Tampa Bay showing positive demographics, growth potential, and affordable housing.

That's a good combination. As it stands today, the portfolio consists of 72 different developments totalling some 9.5 million square feet of gross leasable area.

The company is well positioned to thrive even in a world where COVID-19 impacts the economy for

months to come. 100% of its anchor tenants continue to pay rent without issue. After all, grocery stores are booming. Slate also collected 85% of total rents in April, a much better result than most of its peers.

As well, 75% of its tenants stayed open during the crisis, and the company has a big presence in states like Florida, Georgia, and North Carolina, places that are starting to reopen.

Slate is even protected against online sales. Yes, there's little doubt that people will continue ordering products online, and we'll likely see more people order groceries online. But it's likely these orders will be processed at neighborhood stores. After all, many folks opt to pick up their groceries, rather than pay extra to get them delivered. That's good news for a retail landlord.

The opportunity

Slate Retail REIT is in good shape looking forward. Combine that with the stock's dirt-cheap valuation and it combines into a pretty compelling investment thesis.

Let's talk a little more about that valuation. In 2019, Slate earned US\$1.19 per share in funds from operations in 2019. Shares trade at just US\$6.23 each as I type this, giving us a dirt-cheap price-to-trailing earnings multiple of around five times.

That doesn't tell the whole picture, of course. Slate has sold off some assets lately, which will reduce the bottom line going forward. And it's still only collecting most of its rent. But the company also recently renegotiated some debt, securing a lower interest rate that will increase earnings. And it's long-term earnings power remains strong.

Even if the bottom line is weak for a few years, Slate can still afford its succulent 13.9% dividend. The payout ratio was approximately 70% last year, and the company plans to buyback shares today to help keep the payout ratio down.

The bottom line on this dividend stock

Remember, Slate shares were approximately 50% higher than today before COVID-19 hit. That's a reasonable medium-term price target, especially as the company [repurchases shares](#). Combine that with the outstanding dividend and we get one of the more compelling opportunities in today's market.

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1. Dividend Stocks
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Author

nelsonpsmith

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