Get $350 a Month in Passive Income From This Little-Known REIT

Description

Small-cap companies remain an attractive bet for investors. They have the potential to grow at a rapid pace, making them attractive compared to their large-cap counterparts. For example, it's easier for a company with a market cap of under a billion to double its valuation compared to multi-billion-dollar giants.

But this does not mean that every small-cap company will generate multi-fold returns. Companies such as **GoPro** and **Fitbit** have burnt massive investor wealth in the last few years. You need to identify stocks with an easily scalable business model to grow top-line and earnings at a fast pace.

In a volatile market, it is essential to buy stocks that are recession-proof — and coronavirus proof. There is one Canadian-based REIT that has corrected significantly and trading at a cheap valuation with a tasty dividend yield. Let's take a detailed look at this company.

Slate Retail REIT has a market cap of $371 million

Retail REITs are facing major headwinds due to the COVID-19 pandemic. But one such retail REIT that should survive the pandemic is **Slate Retail REIT** (TSX:SRT.UN). The stock is trading at $9.17 per share, down 33% from its 52-week high.

Slate REIT owns grocery-anchored real estate properties in the U.S. It owns 72 properties in secondary cities south of the border spanning 9.5 million square feet of gross leasable area. Slate REIT properties are well poised to emerge unscathed amid the pandemic as groceries are essential services and are unlikely to shut down.

However, with social distancing the new normal in the near future, it is quite possible for people to buy essential products online, which means that Slate is vulnerable to the secular headwinds triggered by the shift to online shopping.

In the company's first-quarter results, Slate's overall occupancy rate fell 0.5% year-over-year to 92.8%. Comparatively, its grocery-anchor occupancy was down to 97.3% in Q1 from 100% in the prior-year period.

This meant Slate's rental income fell 12% and net operating income declined 19% in the March quarter. Adjusted funds from operations declined by 4% as well.

While Slate REIT has not been immune to the COVID-19 pandemic, it has performed much better than peers. It collected 85% of total rents in April and 75% of Slate tenants stayed open amid lockdowns.

Slate has a huge presence in states such as Florida and North Carolina. These states have started to ease lockdowns and should reopen quickly.

Valuation and dividend yield

Last year, Slate Retail REIT reported US$1.19 per share in funds from operations. The stock is currently trading at US$6.7 indicating a trailing price to earnings multiple of 5.6. Slate recently sold off a bunch of its assets which will impact company bottom line in 2020 and push this multiple higher.

According to analyst estimates from Yahoo! Finance, Slate Retail REIT stock is trading at a forward price to earnings multiple of 8.8. Comparatively, its price to book ratio is 0.68, and the price to sales ratio is 2, which looks really attractive compared to the stock's dividend yield.

The recent pullback in stock price has increased its forward yield to 13.3%. Thus, in order to generate $350 in monthly dividend income, you need to buy 3,443 shares, which will mean an investment of $31,572.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:SGR.UN (Slate Retail REIT)

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