



Load Up Today: This 10.8% Yield Surely Won't Last Long

Description

Patience is a good thing in the world of investing, but sometimes it comes back to bite you.

Countless investors have stories about a high-quality stock they'd been following for years, just waiting for a good buying opportunity. They all planned to buy the dip. Then the dip came and some other reason prevented them from buying.

Some investors make an even worse mistake. One of my worst mistakes was back in 2003, right when I first started buying stocks. **McDonald's** shares were decimated after *Super Size Me* was released, a documentary that didn't paint the chain in a very positive light. Shares dipped to US\$13 each. Rather than loading up, I was going to wait until the stock hit US\$12.

It never happened and I missed out on a glorious opportunity. To put it into perspective, McDonald's shares are currently worth more than US\$200 each.

I'm constantly reminded of that [investing mistake](#) and I've vowed to never make it again. Sure, I still insist on paying a reasonable valuation for a stock. But I no longer sit tight for a no-brainer entry point. If the opportunity is there, I seize it.

I believe investors should be doing the same thing with another stock today, a company with a fantastic yield. Act now; this opportunity might not be around for very much longer.

The skinny

Slate Retail REIT (TSX:SRT.UN) is one of the better buys in today's market after rallying more than 100% off its recent lows.

Slate Retail REIT owns grocery-anchored real estate in the United States, focusing on medium-sized cities like Atlanta, Charlotte, and Pittsburgh. As it stands today, the company owns 72 different locations spanning some 9.5 million square feet.

It also recently announced an acquisition that will see it pay US\$90 million for seven new properties located in Virginia, North Carolina, and Maryland.

The company weathered the COVID-19 downturn with ease. Its defensive portfolio sure helped. More than 50% of Slate's rents come from grocery stores, pharmacies, and other essential services that were unaffected by the virus.

It collected 85% of rents in April, far exceeding the average in the sector, which was closer to 60%. Slate has also maintained its occupancy throughout the crisis, which currently stands at 91.3%.

Sure, a spike in [online buying](#) should trouble some of Slate's renters, but its anchor tenants should be fine. Most grocery chains are using their stores as key distribution points for online orders, picking orders using existing staff and inventory on hand. These stores also offer popular curbside pickup options, which are attractive for folks coming home from work.

In other words, don't believe the naysayers. Slate's fundamentals continue to look strong. Shares are still cheap, but that might not last for long.

The opportunity

Despite weathering the downturn nicely, making an astute acquisition for below replacement cost, and paying an excellent dividend, Slate Retail shares are still exceptionally cheap.

In 2019, Slate earned US\$1.20 per share in funds from operations. As I type this, the company's U.S. dollar listing on the **TSX** currently trades for US\$8.37. That's a trailing price-to-funds from operations ratio of less than seven times.

When we also factor in the risk-free interest rate, that's extra cheap. Slate currently trades at a 14.33% earnings yield. Government bonds, meanwhile, offer around a 0.7% yield. Are the company's earnings really 20 times riskier than a government bond? I certainly don't think so.

Investors are also treated to an excellent dividend yield. Slate currently pays a 10.8% dividend, a distribution that boasts a payout ratio of approximately 70% of 2019's funds from operations. Many of Slate's competitors, meanwhile, have payout ratios in the 80-90% range.

Some investors think Slate's dividend is about to be cut. I disagree. In fact, it should be all the more safe after the new acquisition starts adding to earnings.

The bottom line

Given the company's dirt-cheap valuation, its sustainable yield, and its protection against a second COVID-19 wave, it's a compelling buying opportunity today. The time to buy is today, before shares rocket higher.

CATEGORY

1. Dividend Stocks

2. Investing

TICKERS GLOBAL

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

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