TFSA Investors: Make $275 a Month in Passive Income With This TSX REIT

Description

If you are one of the many Canadians who has held a Tax-Free Savings Account (TFSA) since 2009, you are well aware of the benefits of this registered account. We know that contributions to the TFSA are not tax-deductible, but any withdrawals in the form of capital gains or dividends are exempt from Canada Revenue Agency (CRA) taxes.

This makes the account ideal to hold dividend-paying stocks such as **Morguard Residential REIT** (TSX:MRG.UN). Dividend stocks have a number of benefits. They generate a steady stream of income and also increase shareholder wealth via capital appreciation.

The TFSA contribution limit for 2020 is $6,000, while the cumulative contribution is $69,500. If you invest this money in Morguard Residential REIT, you can generate over $3,330 in annual dividend payments, indicating a monthly payout of $275 given its forward yield of 4.8%.

This payout can be used to pay your groceries, utility bills, or put away for your dream vacation. Alternatively, you can reinvest these dividends and benefit from the power of compounding.

Why should you consider Morguard Residential for your TFSA?

Several companies across sectors have seen their stock price take a massive hit due to the COVID-19 pandemic. Investors are concerned over lower consumer demand, rising unemployment rates, and a sluggish global economy that has driven stocks to multi-year lows.

As economies were shut, retail REITs burnt significant investor wealth. On the other hand, residential REITs such as Morguard also witnessed a significant decline in stock prices, but should rebound quickly if the economy recovers. Shares of Morguard Residential are trading at $14.6, which is 30% below its 52-week high.

Morguard owns 42 apartment complexes across Canada and the U.S. totalling over 12,100 units. Over 30% of its portfolio is located in Ontario with a focus in large cities such as Toronto. Its occupancy rate is consistently above 95%, and Morguard has reported strong rent collection amid the worst of the pandemic in April and May.

Morguard stock went public back in 2012 at a price of $10.4 and almost doubled in less than eight years prior to the pullback. The long-term growth prospects for this REIT remain intact given Canada's immigration policies, which will boost demand for residencies.

Further, the current economic downturn will also enable Morguard to grow inorganically and acquire apartments at a discount.

While most residential REITs are trading at 15-20 trailing earnings, Morguard is trading at 11 times trailing funds from operations. Its price to book value multiple is also low at 0.4, making it a solid bet for contrarian and value investors.

Morguard's dividend payout ratio of 55% makes a dividend cut unlikely and provides enough room for a dividend increase as well.

The Foolish takeaway

Morguard REIT has a diversified portfolio of residential properties. Its portfolio size has more than doubled since its IPO and its total assets are valued at $3.2 billion.

The company's low payout ratio, focus on expansion, and robust dividend yield makes it a compelling bet for income investors.

This is just an example of a quality dividend-paying stock for your TFSA. You need to identify similar companies with strong financials and safe dividend yields and diversify your TFSA portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)

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Date
2025/07/21
Date Created
2020/07/02
Author
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