An +11% Dividend?! What You Need to Know About This Canadian Real Estate Juggernaut

Description

The group of Brookfield companies have always intrigued me, particularly from the point of view of an income investor. Most of the **Brookfield Asset Management** subsidiaries offer juicy dividend yields. Some offer more than others due to varying valuation hits of late.

In this article, I am going to discuss **Brookfield Property Partners** (TSX:BYP.UN)(NASDAQ:BPY). Specifically, I will discuss why I would encourage investors to be wary of the company's high yield.

Yield is not everything

A dividend yield at one point in time is a fickle thing. Using a company's dividend yield to determine whether or not to buy a stock misses very important aspects of dividend disbursements, which should always be considered. These include historical dividend growth over time and the dividend-payout ratio. Additionally, this includes an assortment of debt equity metrics such as interest coverage ratios and a company's quick ratio. Taking the entirety of a specific company's situation at a given point in time and assessing the big picture is the way to go.

On that basis, Brookfield Property Partners's situation does not look great. As of mid-March, the company's payout ratio was around 125%, Further, the company's liquidity metrics were well below one. This is a sign Brookfield will need to add debt or equity soon.

In addition, the company's massive debt load and interest coverage ratio are by far the least desirable among its group of sibling companies. The company's double-digit dividend yield thus appears to reflect some serious doubt about BPY's ability to sustain and grow its dividend over time. This is (obviously) a big negative for income investors.

Business model under significant investor scrutiny

The company's business model is one driver of this sentiment. The company has high levels of exposure to office and retail (mainly malls) real estate. These two asset classes now being shunned by financial markets largely as a result of the COVID-19 pandemic.

As many of us have seen, working from home and shopping from home really is not as bad as we have previously thought. The transition towards the home office and e-commerce has only been accelerated, and the curve has shifted. Companies like BPY holding a large portfolio of traditional brick-and-mortar retail and office hours simply will not attract capital inflows as in the past. This is despite the high quality of these particular assets.

Brookfield Asset Management could save the day

But wait, there is good news. Brookfield Asset Management, BPY's parent company, has indicated it will support BPY. However, it is necessary to get the company through these times. Given the deep pockets of BAM, some investors are pricing a "Brookfield put." This is a cheeky term I coin in reference to the oft-discussed "Fed put" related to the mountains of liquidity being pumped into the financial system post-crisis we have seen.

The backing of BAM makes BPY's dividend a lot safer. In addition, this significantly reduces the risk of a dividend cut or suspension in the near term. That said, to what degree asset sales or other measures will be needed to shore up BPY's balance sheet does remain a significant overhang for the stock. The ability of BAM to fix the issues within BPY's portfolio is thus the bet a long-term investor is making today on BPY stock and should not be taken lightly.

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