TSX REITs: 2 Income Machines to Watch

Description

Stocks have been hit hard across the board as of late, and TSX REITs have been no exception.

With businesses closing temporarily or for good and office spaces clearing out, cash flow has dried up for TSX REITs. Missed rent payments have forced many names in the industry to cut dividends and pull back on guidance.

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However, some TSX REITs have been able to withstand the pressures and produce results. These are generally the REITs that are more defensively positioned.

Today, we'll look at two income machines that REIT investors should keep an eye on. One might be one of the REITs due to cut dividends, while the other is more reliable and stable.

SmartCentres

SmartCentres REIT (TSX:SRU.UN) is a large Canadian REIT focused on the retail space in Canada.

As a result of its heavy focus on shopping centres and strip malls, the REIT has had mixed results as of late. Year-over-year quarterly revenue growth is 2.4%, while quarterly earnings growth for the same period is -19.4%.

The tightened economy has also pushed the payout ratio up for SmartCentres, which now comes in at 102.85%. This seems to suggest that the 9.16% yield on offer as of this writing is at risk of a cut.

That alone will probably stop a lot of investors from pursuing this TSX REIT. However, even a 25% cut to the dividend would leave the yield just shy of 7%.

Plus, SmartCentres does have a lot going for it for the long run. It has recently invested $5.5 billion into development projects, including apartments, condos, hotels, and other residences.

These projects are expected to wrap up within the next few years and will help SmartCentres diversify

its retail-heavy portfolio.

Even still, the risk is there in the short run and might be enough to deter investors from latching onto this income machine.

Choice

Choice Properties REIT (TSX:CHP.UN) is another massive Canadian TSX REIT.

While it's also technically heavily retail oriented, its portfolio has been highly resilient to market forces.

This is because its retail properties are anchored by its strategic partner, **Loblaw**. Loblaw is Canada's largest grocery provider and, as such, has continued to do solid business during these times.

Without missed rent payments from vacant properties, Choice has been able to maintain a healthy balance sheet with good results. Its payout ratio is currently 71.59% with a yield of 5.97% as of this writing.

It certainly seems like Choice has the more sustainable dividend at this time and more stability to boot.

Its resiliency to market forces is highlighted by its beta of 0.42. In contrast, the beta for SmartCentres REIT is 1.15.

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If you're looking to add a TSX REIT without a lot of the question marks and risks associated with the sector, Choice is a solid option.

TSX REIT strategy

Both of these income machines are known for providing investors with solid monthly income. However, SmartCentres's dividend seems to be in peril while Choice is operating with a sustainable figure.

With SmartCentres, the reward is certainly there, but so is the risk. Plus, over the long run, the REIT might perform well with a more diversified portfolio. However, Choice is the more reliable and steady option for the time being.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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