If I Were a New Investor, I'd Buy This 12% Dividend Stock Now

Description

Having 12 years of stock investing experience, I've made my fair share of mistakes. Over the years, I find that limiting downside risk and seeking surer returns tend to generate better overall returns.

Highly volatile stocks encourage more frequent stock trading. It's fine and fun if you're an active investor who has the time and enjoys watching the markets and managing your portfolio. However, it's extra work for those who are tight on time.

That's why some investors prefer to receive a meaningful portion of their returns from periodic dividends. Dividends can be paid monthly, quarterly, every half year, or annually, depending on the company in question. Quarterly and monthly dividend stocks are more common.

If I were a new investor in today's stressful environment, I'd focus on two things: income and surer total returns.

One stock I'd buy for surer returns

Surer total returns as in I'm cognizant of the valuation I'm paying for the stock's normalized profitability. **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY) stock has fallen out of favour due to its large exposure to retail properties.

Surely, that part of the business is highly uncertain in the near term because of the COVID-19 disruptions, but the stock has reflected that by falling more than 40%. In fact, in the March market crash, it overshot to the downside by falling as much as 63%. The stock appears to have stabilized its stock price.

Get a 12% yield from this undervalued dividend stock

In its first-quarter report, BPY revealed strong April rent collection, which averaged above 90, for its office and multi-family portfolios. Its retail portfolio collection was only about 20% at the time, though.

In a June presentation, Brookfield Property indicated that its current yield is supported by stable cash flow from a diversified portfolio and access to liquidity.

This suggests that management is keen on keeping BPY's current juicy yield of close to 12% intact! However, expect the real estate stock's dividend growth to come to a halt because of the challenging environment.

At the end of Q1, BPY had US$7.2 billion of liquidity, including US$1.8 billion of cash on hand. This is more than enough to cover its cash distribution for a year, as it paid US$1,281 million of dividends in the trailing 12 months.

Additionally, most of its debt is at the asset level. So, its corporate debt is low. Only 8% of its debt is recourse to BPY. So, in the worst-case scenario, it can hand over troubled assets to the corresponding creditors.

The Foolish takeaway

Analysts think Brookfield Property should be worth US$15.21 per unit over the next 12 months. This represents 37% near-term upside potential.

In summary, the real estate stock is undervalued and offers a mouth-watering 12% yield that isn't normally available. If things return to normal, the stock can even get back to its previous highs, which implies price appreciation of 71%.

BPY is set to report its Q2 results on August 6, at which time it should reveal more colour on the pandemic's impact on its business performance. Cautious investors can therefore wait until then to decide whether to invest in BPY.

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kayng