



## This Top Dividend Stock May Not Be Expensive After All

### Description

In 2013, I identified **Canadian Apartment Properties REIT** ([TSX:CAR.UN](#)) or CAPREIT to be a quality company. However, I thought the stock offered little growth. So, despite I felt it was fairly valued at the time, I forwent the stock but added it to my **Scotiabank** practice account to keep it on watch.

Boy do I regret not adding it to my real account! The stock has since more than doubled, rising 133% even after the latest market selloff. Including the dividends, the total returns were more than 15% per year!

### What I was right about...

From 2013 to 2019, the residential REIT increased its cash distribution by 3.1%, a rate that's close to the long-term rate of inflation. So, its payout is maintaining purchasing power.

During that period, Canadian Apartment Properties' Funds from operations (FFO) per unit climbed about 5.5% per year. That's not a lot of growth.

If the residential REIT doesn't offer much growth, then why did it go from trading at about 13.6 times FFO to about 21.6 times today? Did investors falsely bid up the stock to levels that aren't sustainable?

### Why CAPREIT commands a premium valuation

CAPREIT may be commanding a premium multiple due to its high-quality cash flow. Since 2005, it only experienced two years in which its FFO per unit declined. In fact, during the last recession about 11 years ago, it managed to *increase* its FFO per unit by 3%.

Last year, CAPREIT increased its operating revenue by 13% to \$778 million, net operating income (NOI) by 15% to \$508 million, and FFO per unit by 5.7%, while it reduced its payout ratio to 65%.

Its results in Q1 were even stronger with NOI growth of 21% and FFO per unit growth of 10.7% year

over year.

Unlike some retail REITs which only collected half their rents recently, CAPREIT collected 98% of its rents in April. Notably, its overall occupancy remained high at 98% in mid-May.

In Q1, there was 13.5% of turnover, but it was able to get residential rent increases of 2.2% on the renewals. Therefore, a low percentage of turnover helps the bottom line as long as new tenants can fill the vacancies fairly quickly.

Simply put, CAPREIT's track record indicates that it's a recession-proof dividend stock. Over the medium term, CAPREIT is estimated to increase its FFO per unit by about 6-7% per year.

Although they're entirely different types of businesses, CAPREIT's kind of earnings stability and growth is akin to **Coca-Cola** and **Pepsi**, but they trade at *even higher valuations*. This indicates CAPREIT could be a reasonably valued high-quality [dividend stock](#).

## The Foolish takeaway

[CAPREIT](#) manages more than 64,600 residential suites across Canada, the Netherlands, and Ireland. It's invested about 9% in Europe through its interests in **European Residential REIT** and Irish Residential REIT.

CAPREIT's key growth markets of Toronto, Vancouver, and Montreal remain affordable with rental properties costing about 23%, 24%, and 20% of the neighbourhood median family income. Its rental income is therefore secure.

When studying the REIT's business, it's not difficult to see why its FFO is so reliable through economic cycles. Everyone needs a roof over their head. If you don't own your residence, you're renting it.

Management is also of top-notch quality. It increased the REIT's FFO per unit over time while decreasing its payout ratio and increasing its cash distribution. Moreover, CAPREIT's financial and liquidity position is stronger than last year, as interest rates and its debt levels are lower.

Analysts have an average 12-month price target of \$57.24 per unit on CAPREIT, suggesting roughly 18% upside potential in the near term. This also implies that the REIT's fundamentals will remain intact and that it's set to maintain its premium valuation with stable growth.

### CATEGORY

1. Dividend Stocks
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### TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

### PARTNER-FEEDS

1. Business Insider
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