



For Sale: 12% Dividend Stock with FREE Class A Malls!

Description

Who says there's no free lunch? Here's an entire class A mall portfolio for FREE! Here are the details of this [once-in-a-lifetime investment opportunity](#).

A substantially discounted dividend stock

Retail real estate is so out of favour right now with COVID-19 disruptions and forced business closures. In April, the rent collections of **Brookfield Property Partners's** ([TSX:BPY.UN](#))(NASDAQ:BPY) retail portfolio stood at approximately 20%.

That's a scary notion for shareholders. Year to date, the high yield stock fell close to 40% to roughly US\$11 per unit. This is already after it recovered 58% from the March market crash low of US\$7.

Thankfully, Brookfield Property has other real estate assets that are performing much better. Its rent collections for its office and multifamily portfolios were much higher, averaging more than 90%.

Currently, Brookfield Property is offering to pay a premium price (US\$12 per unit) to the market price to buy back nearly \$10.6 million worth of units for cancellation. This is a courtesy offering for investors who simply want to liquidate their positions.

The stock is still cheap at US\$12 however. Management revealed that BPY's net asset value (NAV) per unit is actually US\$14 per unit, assuming its core retail portfolio has zero value.

In other words, investors purchasing the stock at US\$11 per unit now are getting a Class A U.S. mall portfolio for *free*. Additionally, from the current stock price, they get a meaningful discount of close to 22% on the remaining real estate portfolio (core office and opportunistic investments).

The bottom line is that BPY trades at a whopping discount of more than 60% from its NAV. This is a substantial discount that has pushed the company's dividend yield to mouth-watering levels.

Is the 12% dividend safe?

Ideally, dividends should be covered by earnings or cash flow, then, by cash on hand (versus borrowing).

BPY's trailing 12-month dividends totalled US\$1,281 million. In Q1, it generated funds from operations (FFO) of US\$309 million but totalled US\$323 million when it accounted for gains from its opportunistic portfolio.

It'll be tough for the company to sell its assets opportunistically during this recession. So, let's assume BPY won't be selling any properties from its opportunistic portfolio over the next year. Then, its annualized FFO would be approximately US\$1,236 million and its payout ratio would be roughly 104%.

If BPY successfully purchases the US\$10.6 million worth of units mentioned earlier, it'll actually save US\$49.3 million for the second half of the year, bringing down its payout ratio to below 100%.

The company's 12% dividend has another layer of protection — its strong liquidity of US\$7.2 billion, including US\$1.8 billion of cash on hand.

Additionally, **Brookfield Asset Management**, the general partner and manager of Brookfield Property, cares about BPY's cash distribution as much as shareholders because it itself is a big shareholder, owning more than 51% of BPY! I'm therefore inclined to believe that BPY will maintain its big dividend.

BPY is a Canadian Dividend Aristocrat to prove its commitment to its dividend. It has seven consecutive years of dividend increases with a five-year dividend growth rate of 5.7%.

In Q1, BPY made a token dividend raise of less than 1%, again, indicating management's commitment to dividend increases despite a challenging operating environment for retailers that has led to some retail tenant bankruptcies in 2019. It raised the dividend before the epidemic turned into a pandemic.

The Foolish takeaway

[Brookfield Property](#) is a high-yield value stock that's too cheap to ignore. By buying today, investors are essentially getting its portfolio of class A U.S. malls for FREE! On top of that, investors are also getting a meaningful discount on the rest of its real estate portfolio. Meanwhile, unitholders get paid a 12% cash distribution yield to wait.

In May, a good percentage of BPY's retail centres were progressively reopening. We'll discover the near-term pandemic impacts on the company's bottom line from its Q2 earnings results next Thursday.

Cautious investors can wait until then to decide whether Brookfield Property is a suited investment for them.

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