TFSA Investors: Is This 11% Dividend Yield the Best Stock to Buy Right Now?

Description

A high-yielding dividend stock is a great way to earn a strong return. Earning a double-digit return without the help of a dividend is pretty good, let alone making that kind of money on a regular basis. There are stocks out there that pay high yields, but the problem is that they're usually not the safest investments to hold in your portfolio.

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Stocks normally yield such high percentages because they've been crashing in value. Dividend yield is a function of the stock price and the dividend income you receive, and so when the stock drops in value, the yield goes up.

But not all stocks that drop significantly in value are bad investments, certainly not this year.

This REIT could be the best stock to put in your TFSA today

Real estate investment trusts (REITs) are a great example of how investors are down on just about anything to do with real estate, as they're concerned tenants won't make rent payments. That's sent share prices of many quality REITs down, and it's created some opportunities for investors in the meantime.

Slate Office REIT (TSX:SOT.UN) currently pays a monthly dividend of $0.0333. If you were to buy the stock at, say, $3.70, your dividend yield would be 10.8%. And if you buy the stock at a lower price than that, your yield would be even higher.

Suppose you were to invest $25,000 into the stock. With a yield of 10.8%, you'd be earning $2,700 a year. Your monthly payments would be $225. And inside of a Tax-Free Savings Account (TFSA), those earnings wouldn't be taxable.

Year to date, shares of Slate are down 36%, as it was hammered hard during the market crash in March, and it's never recovered from that.

Is the stock a safe buy?

On Thursday, Slate released its second-quarter results of fiscal 2020. The company remains optimistic and said that it “collected 96% to 97% of rent in cash within each month of the second quarter and expects to substantially collect the residual rent through short-term deferral programs.”

The company’s adjusted funds from operations (AFFO) were $11.8 million and down just 3.3% from the same time last year. Its AFFO payout ratio was 61.9% and only slightly higher than a year ago, when it was 60.4%. Based on the numbers, there don’t appear to be any significant concerns right now for investors. Slate is one of the few examples of a company that’s still doing well, but it’s been dragged down by the markets as a whole.

Shares of the REIT are trading at around 0.4 times their book value as investors remain very hesitant to buy shares of the Slate. The strong rent-collection numbers and AFFO suggest this stock could rebound nicely and not only generate significant dividend income for investors but capital gains as well.

With a yield that’s almost too good to be true, and the REIT still producing good numbers, Slate is an underrated buy that could pay off significantly for TFSA investors. The dividend stock could be a steal of a deal and generate significant cash flow for your portfolio.

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