Forget Canadian Tire (TSX:CTC.A): Here's a Stronger Dividend Play!

Description

Canadian Tire (TSX:CTC.A) is an iconic retailer that's felt the heat from investors amid the coronavirus crisis. Shares fell under pressure upon the release of some solid second-quarter results, but were quick to recover, as investors had a chance to digest the quarter fully.

While the brick-and-mortar retailer is poised to recovery in a big way alongside the Canadian economy, investors need to realize that the bar has now been raised, and a worsening of the COVID-19 pandemic could drag shares back to below the $100 mark.

In addition, shares of CTC.A are looking fully-valued these days, so there's less of a margin of safety for investors who seek to limit their downside in a potential second wave of COVID-19 infections.

A resilient REIT benefiting from Canadian Tire's strong balance sheet

For value investors seeking a better bang for their buck, there's **CT REIT** (TSX:CRT.UN), a well-run warehouse- and retail-focused REIT that houses several Canadian Tire locations. The REIT is far more resilient in the face of a pandemic than Canadian Tire, having faced a minimal amount of disruption in the first two quarters.

Approximately 92% of CT REIT's revenue is concentrated from Canadian Tire, making it a less risky play for investors who seek to limit their exposure to stocks that could, once again, be gripped by the insidious coronavirus.

Canadian Tire has an incredible liquidity positioning. It should have no problem surviving the COVID-19 crisis or making rent, even if this pandemic were to drag on into the latter part of next year.

In a way, CT REIT is a great way to play the strong balance sheet of Canadian Tire without having to deal with excessive amounts of volatility from the brick-and-mortar retailer itself, which could suffer several more quarters worth of lost sales for the duration of this pandemic.

CT REIT: A resilient REIT

CT REIT's second-quarter occupancy rate reached an applause-worthy 99.3%, which was little changed from the first quarter. Rent collection rates from tenants held steady at around 97.3% for the quarter, rising to 98.5% for the month of July.

While there were some third-party tenants who required deferrals due to the COVID-19 impact, Canadian Tire, which composes a vast majority of revenues, was not in need of deferrals and given its stellar financial flexibility position, I don't see the need for such, even in a bear-case scenario with this pandemic.

Having demonstrated such resilience amid the worst of the pandemic, CT REIT is a must-buy for any income investor who seeks to shelter themselves from the COVID-19 crisis. The REIT sports a bountiful 5.55% distribution yield that's well-covered given CT REIT's solid balance sheet and minimal interruption in its cash flows.

Indirectly, CT REIT benefits from Canadian Tire's incredible liquidity position. Canadian Tire sports a quick ratio of 1.46 and a current ratio of 1.87, so the retailer should have more than enough to make rent on time while weathering further waves of the COVID-19 crisis.

Foolish takeaway

Given the resilience and lower expected volatility, CT REIT is a must-buy. Canadian Tire may have more upside should COVID-19 be eliminated, but if you're not so optimistic about the timely advent of a vaccine, CT REIT is the better horse to bet on.

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