A Once-in-a-Decade Opportunity to Earn $2,000 Tax-Free CERB for a Lifetime

Description

When the COVID-19 outbreak was declared a pandemic, the Canada Revenue Agency (CRA) started a $2,000 Canada Emergency Response Benefit (CERB) per month to help unemployed Canadians with their living expense. Every time a crisis reiterates the need for an emergency fund. The CERB showed that a monthly passive income of $2,000 can relieve you from financial stress during emergencies. However, the CERB is temporary and taxable.

Today I will talk about a once-in-a-decade opportunity the pandemic has created to earn up to $2,000 in tax-free monthly income for a lifetime.

A once-in-a-decade investing opportunity

The March market sell-off sent almost every stock down more than 20%. The stock price of even the fundamentally strong stocks with good cash flows and dividend history fell more than 20%. This decline in stock prices created a once-in-a-decade opportunity to buy quality stocks at an attractive value, and lock in a dividend yield of more than 7%. In a normal economic environment, even the top dividend stocks offer a dividend yield of 6%.

To make the best of this value investing opportunity, you have to identify good dividend stocks that possess the below three qualities:

- The stock should have a history of paying regular and stable dividends even during an economic crisis, without any dividend cuts. It would be a bonus if the company increases its dividend per share on regular intervals.
- The company should have stable cash flows and low debt.
- It should have a dividend payout ratio of less than 100%. You don’t want the company to give away all its cash in dividends. It should also invest in future growth opportunities to expand its business.

There is one stock that meets the above three criteria and is currently trading at a very attractive valuation.

RioCan REIT

Like all REITs, **RioCan REIT** (TSX:REI.UN) earns money by renting out its properties to tenants, mostly retailers. None of its tenants account for more than 5% of its rental income. It distributes the cash flow from rental income to shareholders in the form of dividends. It has an average dividend payout ratio of 77-80% of its free cash flow (FCF).

The company has a history of paying dividends regularly for 20 years without any significant dividend cuts. In the 2009 financial crisis, it maintained its annual dividend per share at $1.38 for four years before increasing it in 2013. One area where it lags is growing its dividend per share at regular intervals. Its dividend per share rose at a compound annual growth rate (CAGR) of 0.4% in the last five years.

This year, RioCan stock fell 44% to its 2009 level of $15. The stock did not recover from its March sell-off as the pandemic-driven lockdown cost it an estimated loss of $19 million in rent abatements and bad debts. In the second quarter, it collected 73.3% of its gross rent, reduced the fair value of its investment properties by 3.1%, and saw its occupancy rate fall to 96.4% from 97.1% in the previous year quarter.

These are short-term challenges that will start phasing out next year as the economy reopens. That will be the time when RioCan stock will start to recover. But its current reduced stock price has increased its dividend yield to 9.34%.

An opportunity to earn $2,000 tax-free CERB for lifetime

This is the right time to put a lump sum amount in RioCan. The company has paid stable monthly dividends for the last 20 years and it has the potential to do so for the next 20 years.

If you have $255,000 in your Tax-Free Savings Account (TFSA), put them in RioCan and start earning $2,000 every month in tax-free dividend income. This way, you won't be affected when the CRA ends the CERB payments in October.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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