A Safe TSX Income Stock to Buy in September 2020

Description

Looking for safe income? Don't chase the biggest yields that can cut their dividends.

The **TSX** currently has **Canadian Apartment Properties REIT** (TSX:CAR.UN) available with a 3% yield. This is an okay yield in the stock investing world but is eight times more attractive compared to the Canadian five-year bond yield of about 0.35%. In five years, investors can count on some price appreciation from the quality stock as well.

CAPREIT outperforms the market

Since 2015, CAPREIT stock has delivered annualized returns of close to 14%.

First, its market outperformance was undoubtedly helped by quality management who knows what it's doing. Second, the REIT aims to invest in geographies that have organic growth.

Third, it targets accretive acquisitions. Finally, it experienced valuation expansion of more than five times in the period.

About the residential REIT

CAPREIT is a leading Canadian residential REIT that enjoys economies of scale as it continues to expand its defensive portfolio with accretive growth opportunities, including acquisitions.

Its portfolio consists of 81% in residential suites and 19% in manufactured home community sites. It has about 22% of its suites and sites in Ontario, followed by focused areas in Quebec and British Columbia. These are all great geographies to be in.

CAPREIT's recent results

CAPREIT reported its Q2 results on August 11. At the end of Q2, its portfolio occupancy remained strong at 98%, down 0.3% versus Q2 2019.

In the first half of the year, its net average monthly rents increased by 5.1% to $1,104. Its operating revenue and net rental income (NOI) rose 17% to nearly $436 million and $281 million, respectively. As well, its NOI margin improved to 64.5%, up 0.3% year over year.

Its normalized funds from operations ("NFFO") rose 17% to nearly $188 million. On a per-share basis, it increased by 7% to $1.102.

Its cash distribution per unit climbed 1%, while its FFO payout ratio improved from 68% to 63%.

Additionally, CAPREIT was able to reduce its cost of borrowing due to lower interest rates. Its weighted average mortgage interest rate was 2.69% at the end of Q2 compared to 2.97% the following year.

The REIT's debt service coverage and interest coverage ratios also improved from a the prior year's 1.74 times and 3.45 times, respectively, to 1.99 times and 3.91 times.

Financial strength

At the end of Q2, CAPREIT's financial position was strong with liquidity of $338 million, including $213 million of cash and cash equivalents.

Impressively, from 2015 to 2019 when the company and stock did well, management didn't go crazy on the debt. Instead, it correctly pushed out equity and reduced its debt-to-gross-book-value ratio to about 36% from the mid-40s. During stressful times like now, having a strong financial position is essential.

Risk and upside

The REIT might experience rent freezes in the near term due to a depressing economy. However, it operates in a defensive industry with organic drivers that will allow it to grow in the long run.

CAPREIT constantly reviews its assets and would sell them when value is maximized and then redeploys the proceeds in better growth opportunities. For example, it sold a non-core Calgary town home in July.

In time, the REIT will be able to raise its rents again. In the meantime, it can look for accretive opportunities, such as a Halifax property and two western Ontario apartment buildings that it acquired last month.

At $45.20 per unit, the stock has a solid 12-month upside potential of 25%, according to the analyst consensus price target.

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