2 Cheap Dividend REITs Yielding Up to 10%

Description

Dividend stocks are a great way to grow long-term wealth and generate a passive stream of income. With interest rates nearing record lows, dividend-paying stocks are attractive for income investors. Due to the market sell-off in the first half of 2020, several stocks are undervalued and trading near book values and might increase wealth via capital appreciation as well.

The recent equity sell-off has provided investors with multiple opportunities to invest in beaten-down stocks. There is no guarantee that cheap or undervalued dividend stocks will gain momentum. However, for investors with a large risk appetite, it could be a good opportunity to maximize long-term gains.

Here we look at two such TSX REITs that are cheap and provide investors with great dividend payouts.

A dividend-paying REIT with a 10.4% yield

The first stock on this list is **Slate Office REIT** (TSX:SOT.UN). Shares of Slate Office have slumped 34.5% year-to-date, which means its dividend yield stands at a juicy 10.4%.

The REIT has built a portfolio of office properties with a diversified footprint. However, due to the ongoing pandemic, offices were shut, which has impacted the top line for most commercial REITs. On the flip side, institutional investors and publicly traded companies continue to seek core office towers in the largest cities. This is a significant opportunity for Slate Office that owns and manages downtown and suburban office properties.

Once the dreaded virus in under control and offices reopen, Slate Office stock should gain momentum and reclaim lost ground. Occupancy and rents in commercial markets are less volatile which should also benefit Slate Office in the long term.

The company recently released its Q2 results and said 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.”

Its fund from operations stood at $11.8 million, a fall of 3.3% year over year while its payout ratio stood at 61.9%. We can see that the company’s dividend is safe and the stock is trading at a price-to-book multiple of just 0.43, making it an attractive buy for value and contrarian investors.

Analysts tracking Slate Office REIT have a 12-month average target price of $4.82, which is 26% higher than the current price. After accounting for its dividend yield, annual returns will be around 36%.

A retail real estate play

RioCan REIT (TSX:REI.UN) is the second-largest retail real estate business in Canada. The company earns a stable stream of cash flows from rent and distributes it to shareholders as dividends. RioCan REIT stock has lost 44% in 2020, indicating a forward yield of 9.6%.

It has a portfolio of 220 properties across Canada with a net leaseable area of 38.6 million square feet. While the company is retail-focused, its customer base is diversified with an occupancy rate of 96.4%, providing the company with revenue stability and a defensive moat.

Despite the ongoing pandemic, RioCan collected 73% of its rent due in Q2, its most challenging quarter ever. It also reported a net loss of $350.8 million, compared to a net income of $253 million.

RioCan stock is also trading at a cheap multiple with a price-to-book value ratio of 0.61. Analysts tracking the stock have a 12-month average target price of $21, which indicates an upside of 40%. After accounting for its dividend yield, investors may gain close to 50% in the next year.

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Date
2025/08/21
Date Created
2020/09/05
Author
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