Buy This Top Dividend Stock for a 12% Yield Now

Description

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) is a rare breed among its peers. Despite its meaningful exposure to retail properties, it has maintained its massive cash distribution so far through this pandemic.

In the second quarter (Q2), the company recorded a rent collection of about 34% of its retail portfolio. Although the July rent collection trended much higher, the dynamic pandemic situation can continue to cause the stock to lag in the near term.

"While many companies were quick to implement furloughs and layoffs at the onset of the pandemic, we made the conscious decision to keep all our team employed while we gained a better understanding of its longer-term impact on our company," stated Jared Chupaila, CEO of Brookfield Properties' retail business.

It recently decided to lay off about 20% of its workforce, which better aligns with the future scale of its portfolio and will save tremendous costs.

Brookfield Property buying back undervalued shares

The company is managed by smart people. It still has the liquidity to buy back stock, as it navigates through this difficult operating environment. In Q2, it bought back US$22.3 million worth of shares at an average price of US$8.45 per unit.

In a recent substantial course issuer bid, Brookfield Property also bought back another US$426 million worth of shares, which equated to about 3.7% of the outstanding shares, at US$12 per unit.

This is evidence that the management finds the stock to be undervalued. Right now the stock trades at US$10.96 per unit, which is more than an 8% discount from the US$12 purchase level.

How safe is the 12% dividend?

Brookfield Property is one of the very few REITs with a big exposure to retail properties, but has maintained its dividend thus far. At the recent quotation, it yields 12.12%.

Because the pandemic situation is fluid and no one knows how long it's going to last, I can't say with any certainty that BPY's cash distribution is safe.

That said, it is one of the best positioned diversified REITs out there to survive through and come out stronger from the pandemic.

First, the company ended Q2 with US$6 billion of liquidity, including US$1.5 billion of cash on hand, $2.8 billion of credit facilities, and $1.7 billion of undrawn construction facilities. From its available cash alone, it'd be able to pay more than one year of cash distributions.

Second, it continues to generate cash flow from its real estate portfolio. For example, its core office portfolio was 92.3% leased at the end of Q2 with a remaining weighted average lease term of 8.6 years. The Q2 rent collection for this portfolio is largely aligned with historical levels.

In the first half of the year, it reported company funds from operations and realized gains of US$501 million, down 31% from a year ago.

The Foolish takeaway

There's no doubt the year 2020 is a tough period for Brookfield Property. However, even if it does end up cutting its cash distribution by 30-50%, it'll still yield about 6-8.5%. The high yield stock also trades at a 40% discount from its recent book value of US$27.01 per unit.

Therefore, on an economic recovery over the next five years, the value stock should be a lucrative investment that delivers attractive income and price appreciation. Income and total-return investors alike should take a closer look at the contrarian stock.

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