CRA: 1 High-Yield Dividend Stock to Buy and Keep Tax-Free

Description

One problem that many investors face, especially early on in their careers, is that they don't start with a definite plan. They don't distinguish between their long-term retirement goals and their short-term savings goals. The problem with just "winging it" when it comes to investments is that they tend to make mistakes when it comes to asset allocation.

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The smart thing to do is start with a plan, even if you are investing minimal amounts. With the right plan guiding you, the chances that you will make costly mistakes with your investments and fall short of your savings goals (despite choosing the right assets) will be minimal.

And if your goal is to create a tax-free passive-income stream, one stock that can help you is the **SmartCentres REIT** (TSX:SRU.UN).

The REIT

SmartCentres is one of the older REITs in the country. It was founded in 1989 and, since the beginning, has focused on retail properties. The REIT is famous for one of its most consistent tenants: **Walmart**, which anchors 115 of its 166 properties that span over 3,500 acres of land. The total asset worth of this REIT's properties is over $10 billion.

Right now, the company is focusing on mixed-use communities, which it's developing on its existing properties. The proposed development projects are more than the company's current asset value, and SmartCentres's share in these projects is about $5.5 billion. As of the third quarter of 2020, the company boasts an occupancy rate of 97.4%, which is impressive if you consider what the retail sector has been through last year.

The rent collection reached a new low in May when the REIT was only able to collect 80% of the rent its tenants owed. But it got bumped up to 96.1% in September (probably around the time when government rent incentives kicked in), pulling the company's revenue streams back near the pre-pandemic levels.

The stock

SmartCentres is a Dividend Aristocrat that has been growing its dividends for six consecutive years. It hasn't increased its monthly payouts from what they were in 2020, but it might be able to retain its status as an Aristocrat, even if it changes gear midway. The payout ratio has risen to historically high levels of almost 259%, but a lot of it is probably the losses the company is suffering from property devaluation.

Since the rent collection is resuming to normal, we can assume that the revenue would be enough to cover the dividends. Even though the price is highly discounted, the stock is far from undervalued at the moment, and its capital growth prospects weren't strong to begin with.

But the strongest reason to invest in this stock is its mouthwatering 7.7% yield. With a substantial amount invested into this company, you can create a tax-free passive income stream.

Foolish takeaway

In the real estate sector, there are a few more companies that offer even higher yields, but few of them might be able to sustain their payouts for long. SmartCentres is in a relatively stable position, thanks mostly to the quality of its tenants. The balance sheet is strong, and revenue is slowly growing quarter after quarter.

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