Revealed: The Best Canadian REIT Is Under the Radar

Description

Let's take a tour around some of the most prominent Canadian real estate investment trusts (REITs) before we reveal the best Canadian REIT that's under the radar from the investing community!

Retail REITs

Before retail REIT giant **RioCan REIT** cut its cash distribution by a third this year, it was a top candidate for the best Canadian REIT.

Smaller peer **SmartCentres REIT** looks brighter. It has maintained its cash distribution through the economic disruptions caused by the novel coronavirus pandemic. Currently, SmartCentres provides a yield of 6.4% that appears to be sustainable with a payout ratio of close to 89%.

Industrial REITs

There's no fear of cash distribution cuts from industrial REITs that have benefited from the e-commerce trend that strengthened during the pandemic.

For example, **Granite REIT** provides a safe yield of 3.8% on a low payout ratio of about 71%. The market is pricing the stock at a premium valuation for the stability and growth it provides.

At $78.83 per unit, the industrial REIT trades at about 19.4 times its funds from operations (FFO) for a growth rate of 6-7%. However, analysts believe it's fairly valued.

Notably, Granite REIT is a Canadian Dividend Aristocrat with 10 years of consecutive cash distribution increases. Its five-year dividend-growth rate is 4.8%.

Granite REIT's peer, **Summit Industrial Income REIT**, has also been awarded a premium valuation by the market for a few years. Summit offers a yield of 3.4%.

Premium valuations seem to be the new normal for industrial REITs because of the e-commerce megatrend.

Residential REITs

Residential REIT **Canadian Apartment Properties REIT** (TSX:CAR.UN) has also been holding its premium valuation well. In fact, CAPREIT stock has traded at a premium valuation for about five years — two years ahead of the industrial REITs.

One reason is because of CAPREIT's quality portfolio and management. Another reason is that home prices have been rising for decades. You're either a homeowner or you're renting. Higher home prices and a stable pool of tenants have both benefited CAPREIT.

Notably, CAPREIT is a Canadian Dividend Aristocrat with nine years of consecutive cash-distribution increases. Its five-year dividend-growth rate is 2.7%. Currently, the residential REIT provides an initial yield of 2.5%.

Diversified REITs

Diversified REIT **H&R REIT** cut its cash distribution by half during the pandemic. The value stock remains substantially depressed from pre-pandemic levels and can appreciate about 30% from the current levels of close to $15 per unit. Meanwhile, it provides a safe yield of nearly 4.6%.

Revealed: The best Canadian REIT!

Revealed here is the best Canadian REIT that's under the radar. Diversified REIT **Fronsac REIT's** (TSXV:FRO.UN) market cap is only a fraction (about 3%) of H&R REIT's market cap.

Because of Fronsac's small size, it's in the sweet spot to make acquisitions that are not large enough for bigger firms but too big for individual investors. It also participates in developments that tend to be more lucrative than making acquisitions. Due to its relatively small scale, every action it makes could drive more meaningful growth for its bottom line.

Many funds do not buy stocks that are below a market cap of $1 billion. Fronsac's market cap is far from that mark (only close to 13% there). Moreover, many investors do not invest on the TSX Venture Exchange — stocks on this exchange are perceived as highly risky. However, gems like Fronsac are hiding in plain sight there!

Anyway, Fronsac REIT is likely to remain under the radar by institutional investors and most retail investors. This gives you the opportunity to scoop up quality shares.

The little REIT is a Canadian Dividend Aristocrat with nine consecutive years of dividend increases. Its five-year dividend-growth rate is 10.8%, while its 10-year annualized return is about 18%, outperforming its peer group and the market!

It enjoys a solid business model consisting of triple-net and management-free leases under which tenants pay for many expenses like insurance, maintenance, taxes, or minor renovations.

The REIT has interests in about 74 properties in eastern Canada with an industry-leading occupancy rate of 99%. Its business performance remained defensive throughout the pandemic. Specifically, its FFO grew 18% per unit, exceeding its cash distribution growth of 15%. Its payout ratio of about 50% provides a big margin of safety for its cash distribution. Fronsac's yield is competitive at about 4%.

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