Is This the Most Reliable 6% Dividend Stock on the Market?

Description

Income-seeking investors face a unique challenge. High-yield dividend stocks are too risky to bet on. Meanwhile, reliable and robust dividend stocks have been overbought, which means they offer barely any yield. Rarely does a company balance both yield and risk perfectly.

However, some asset classes can achieve high returns without exposing your portfolio to too much volatility. Commercial landlord **SmartCentres REIT** (TSX:SRU.UN) is one such opportunity. Here's a closer look at why this Real Estate Investment Trust deserves a spot on your watch list.

Anchor tenants

SmartCentres REIT has carved out a niche by investing in real estate businesses investing in retail spaces such as stores and shopping centres. Each of these properties is anchored by tenants such as Wal-Mart, which was thriving during the pandemic and is still firing on all cylinders.

At the moment, Walmart accounts for 72% of the company's annual revenue. That's what makes SmartCentres' dividend so reliable. Tenants like Wal-Mart never have cash flow issues or cyclical downturns, which means the rents keep flowing.

SmartCentres has also been broadening its portfolio with investments in companies with exposure to mixed-use properties like residences, hotels, and retail and storage facilities. Management has already identified 95 properties for intensification, which can only lead to more revenues going forward.

Robust fundamentals

A high occupancy rate of about 97% across a portfolio of 168 properties underscores SmartCentres REIT's ability to generate significant free cash flow for distribution to investors. Consequently, the REIT pays a much higher dividend yield of 6% compared to roughly 4% for the average REIT.

SmartCentres REIT payout is expected to be about 87%, which is much higher than what is available in other REITs. Consequently, it should be able to sustain its high dividend yield of 6%, having increased its cash distribution every year since 2005.

Valuation

SmartCentres trades at roughly 20 times earnings per share and a paltry 24% premium to book value per unit. The valuation looks even better on an industry-specific basis. Each unit of SmartCentres is trading at 15 times funds from operations (FFO). That implies a FFO yield of 6.6% – better than most of its peers and enough to cover the dividend every year.

In short, SRU is undervalued and better-positioned than most other real estate dividend stocks. That's why it deserves a spot on your watch list in 2022.

Bottom line

In the current low interest rate environment, income-seeking investors have few good options. Canada's real estate sector has been an exception, but some pockets of the market seem overvalued or risky. Residential real estate, for instance, is arguably overstretched.

By comparison, SmartCentres REIT seems like a much better alternative. The company owns and operates commercial properties that are anchored by essential businesses. Walmart alone accounts for the majority of its revenues, which puts it in an excellent position regardless of the economic cycle.

If you're looking for a high-yield, low-volatility, reliable dividend stock, SmartCentres REIT should probably be on the top of your list.

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