



Passive Income Boost: This TSX REIT Could Gain 12% in the Next Year

Description

There are several ways to earn a [reliable stream of passive income](#). However, one of the most cost-efficient strategies is to invest in quality [dividend-paying companies](#). Here, investors have the opportunity to benefit from predictable dividend payouts as well as long-term capital gains. Further, in case you hold these stocks in a Tax-Free Savings Account (TFSA) you can benefit from tax-free gains.

There are several Real Estate Investment Trusts, or REITs trading on the **TSX** that provide investors a tasty dividend yield. One such company is **Killam Apartment REIT** ([TSX:KMP.UN](#)).

The bull case for Killam Apartment REIT

A growth-oriented Canadian REIT, Killam Apartment REIT owns, operates, and develops apartments as well as manufactured home communities. It owns a real estate portfolio valued at \$4.4 billion across provinces that include Ontario, Alberta, Atlantic Canada, and British Columbia.

Valued at a market cap of \$2.54 billion, Killam Apartment has managed to [increase sales](#) from \$187.4 million in 2017 to \$261.7 million in 2020. Its operating income has grown from \$101.5 million to \$149.8 million in this period.

In the third quarter of 2021, Killam Apartment reported a net income of \$46.6 million, which was \$9.1 million higher compared to the year-ago quarter. The bottom-line increase was driven by acquisitions, completed developments, and higher earnings from its existing portfolio, in addition to fair value gains on investment properties.

Its net operating income rose almost 17% year over year to \$50.5 million, while earned funds from operations rose by 11% to \$0.30. Killam's adjusted FFO per unit rose 13% year over year to \$0.26, reducing its payout ratio from 75% in the prior-year quarter to 66% in Q3 of 2021, given its annual distribution of \$0.70 per unit.

Killam Apartment ended Q3 with a portfolio of 18,651 apartment units, 5,875 MHC sites, and average monthly apartment rent of \$1,212.

Why do you need to invest in this REIT?

Killam Apartment continues to grow its real estate portfolio and expand geographically through acquisitions. It has one of Canada's highest quality and youngest apartment portfolios with 36% of net operating income derived from apartments built in the last 10 years. Killam confirmed it has a development pipeline of \$1.3 billion to support future growth in revenue and earnings.

The Canadian REIT has managed to increase its distribution per unit at an annual rate of 3.8% between 2016 and 2020. Additionally, its payout ratio has steadily declined from 91% to 82% in this period. Killam also has a resilient balance sheet and ended Q3 with an interest coverage ratio of 3.52, up from 2.70 in 2016.

Right now, Killam Apartment REIT offers investors a forward yield of 3.03%. So, an investment of \$10,000 in this stock will allow you to generate \$303 in annual dividend payouts. After adjusting for dividends, the REIT has generated 138% for investors in the last five years.

Bay Street expects Killam REIT stock to rise over 10% in the next 12 months. After adjusting for dividends, total returns will be closer to 13%, making it a top bet for income-seeking investors.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:KMP.UN (Killam Apartment REIT)

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