Lock in 7% Yield at a Safe Payout Ratio With These 3 Stocks

Description

Dividend growth and yield don't always go hand in hand. **Goeasy** has been the most generous dividend grower for the last five years, and it has increased its payouts by margins that many dividend stocks, even aristocrats, only achieve after decades. But its yield, thanks mostly to its robust growth, usually remains below the radar.

And though a high dividend yield can seem quite attractive, it can also come at the price of sustainability, which is dangerous. One way to ensure that a yield is not just high but also safe is to look at it along with the payout ratio.

An office REIT

Slate Office REIT (TSX:SOT.UN) is one of Canada's few pure-play office REITs. It has an impressive portfolio of 55 properties, distributed in Canada, Ireland, and the U.S., though the bulk of the portfolio is here at home. It also offers other decent income stability markers, like the fact that two-thirds of its tenants are either government entities or credit-rated stable tenants.

The weighted average lease of 5.7 years, which indicates how long the company can rely upon a consistent rental income without looking for new tenants, is in the REIT's favour as well. It's currently offering a generous 7.9% yield, and the payout ratio is 62.7%, which is quite stable from a REIT perspective.

A commercial REIT

Unlike the office-specific REIT above, **BTB REIT**'s (TSX:BTB.UN) portfolio is more spread out when it comes to the asset class. However, the largest portion of its portfolio is made up of office properties, followed by retail and industrial. About one-tenth of the portfolio is mixed-use. With assets and adequate geographic distribution, the REIT seems quite safe from a diversification point of view.

The REIT is currently offering a juicy 7.35% yield. The main factor behind such a high yield is the 25%

discount from the pre-pandemic peak that the stock is still tagged with. But considering its almost static valuation, it is safe to say that the stock has settled at its new “normal.” The current payout ratio is also relatively safe at 50.8%.

A mortgage company

Mortgage companies in Canada get stability endorsement from two fronts: real estate (a stable asset class) and the Canadian financial sector. And **MCAN Mortgage** (TSX:MKP) adds another layer to it by being federally regulated, which might also indicate a relatively conservative approach resulting in even more stability.

Even after a sizeable post-pandemic price hike which has caused the stock to trade at a 16% premium to its pre-pandemic peak, MCAN is offering a mouthwatering 7.5% yield. The payout ratio is relatively stable as well, at 49.6%. The company also raised its dividends three times in the last two years, so you can also hope to beat inflation if it continues this trend.

Foolish takeaway

The payout ratio is a good metric to gauge the financial stability of the dividends. It *may* give you an indication of when to sell a dividend stock, but it’s not always straightforward. BTB REIT slashed its payouts in 2020 when its payout ratio averaged out to 54.4% while sustaining them through payout ratios above 100%.

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Author
adamothman