Top Real Estate Stock for Dividend Growth

Description

Commercial real estate has been in a precarious position ever since the pandemic erupted. Now that the crisis is ending and mandates are lifting, this sector could be a source of safe and predictable returns.

Here's a real estate investment trust (REIT) that should be on your radar for dividend growth 2022.

RioCan REIT

RioCan Real Estate Investment Trust (TSX:REI.UN) was one of the best-performing REITs last year, rallying by more than 30% and outperforming the TSX and up by about 20%. This stellar performance does not come as a surprise, given that the REIT boasts an excellent portfolio of commercial properties and strong anchor tenants.

These trends should continue in 2022. The REIT has been firing high and showing no signs of slowing down. Its long-term outlook is looking increasingly bright amid a push to reduce exposure to non-essential retail. The focus has since shifted to mixed-use properties where essential retail can coexist with office and residential buildings.

RioCan is also fresh from delivering solid Q4 and full-year 2021 results, whereby funds from operations (FFO) and adjusted FFO met analyst targets. Net operating income was also up 3.4%, with occupancy levels improving significantly to 98%. Rent collection was similarly high at 98%.

The REIT is also in a good financial position with a total debt to total assets of 44.4%. RioCan has about $150 million in cash on hand, which should help keep the debt ratio low. It should also cushion any blow from rising interest rates in 2022. RioCan could finance its developments and acquisitions even in a rising-rate environment.

Dividend growth

RioCan is now projecting 5-7% growth in FFO this year, which affirms continued growth. The return to downtown offices and apartment buildings in 2022 further supports cash flow growth. Meanwhile, the dividend-payout ratio is just 69%, which leaves room for expansion. In other words, RioCan's 4% dividend yield is deceptively low and could expand considerably by this time next year.

If RioCan can achieve this 5-7% growth target, its dividend should outpace inflation. That makes the stock a potential hedge against the rising cost of living and declining value of our currency.

Valuation

RioCan stock is up 28.5% over the past year but still trades roughly 10% lower than its pre-pandemic high. The stock-to-book value ratio is 0.98, which could indicate that the stock is oversold.

Rising rents and commercial property values should drive these fundamentals further. However, rising interest rates are a risk to watch out for. RioCan's low debt-to-equity ratio of 84% provides some protection, but the stock could be caught if the real estate sector faces a wider selloff.

All things considered, RioCan could still be a source of reliable dividend growth this year.

Bottom line

The return to work, rising rents in urban centres, and reopening of commercial properties benefit RioCan. The stock is relatively undervalued and could offer inflation-beating dividend growth this year. Keep an eye on this unique opportunity.

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vraisinghani