TFSA Passive Income: Is RioCan (TSX:REI.UN) a Good Stock to Buy Now?

Description

RioCan (TSX:REI.UN) had a rough run during the pandemic, and the unit price has come under pressure again in recent months. Investors seeking high-yield passive income are wondering if this is a good opportunity to buy RioCan for their Tax-Free Savings Account (TFSA) portfolios.

RioCan earnings

RioCan saw net income for the first half of 2022 drop to $238.5 million from $252 million in the same period last year. On the positive side, funds from operations rose to $262.2 million from $233.6 million, and funds from operations per trust unit on a diluted basis came in at $0.85, up from $0.73 in the first half of 2021.

RioCan is best known for being an owner and operator of shopping malls. The company started a transition process a few years ago when it sold off assets in secondary markets to focus investment on six core cities in Canada. The company is diversifying its revenue stream by building mixed-use properties that combine retail and residential space. RioCan also has a number of residential developments. The timing for moving into strategically located rental properties looks good, as rising home prices and soaring interest rates are expected to force more people into renting apartments rather than buying homes or condos.

Companies are calling employees back to offices in the city core. This should revive interest in high-quality rental properties located along urban transit routes.

On the retail side, RioCan's malls survived the pandemic largely due to the government assistance provided to businesses that occupy these locations. In addition, a large portfolio of high-quality tenants that provide essential goods and services also helped.

Consumers are heading back to brick-and-mortar stores to do their shopping, and that trend is expected to continue, as COVID-19 becomes less of a public health concern.

RioCan often fills vacated space at higher lease rates, and demand remains strong for its big-city locations.

Risks

A recession could trip up the retail recovery and lead to a rise in store closures. High inflation is forcing consumers to use discretionary income to buy essential goods. Some are even dipping into savings to cover rising living costs. The situation is expected to get worse in the next 12-24 months, as high interest rates bump up mortgage payments. If the economy slows down too much and businesses start shedding jobs, the retail sector could take a big hit.

Soaring interest rates will eventually put pressure on RioCan's balance sheet as well. The surge in interest rates is driving down bond prices and pushing up bond yields. This makes borrowing more expensive when companies need new cash or have to renew existing debt. real estate investment trusts (REITs) tend to carry significant debt, so there could be less cash available for distributions if debt costs increase in the next few years.

Is RioCan a buy?

RioCan trades near $18 at the time of writing and offers a yield of 5.6%. The payout is probably safe, but distribution growth will likely be limited over the medium term. As rates continue to rise, REITs could come under added pressure. With this thought in mind, I would probably look for other opportunities in the market that offer better yields right now, and dividends that are expected to grow at steady pace, despite the economic headwinds.

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aswalker