



## This TSX Stock Is Super Cheap and Pays a Monster Dividend

### Description

The TSX Composite Index fell 5.3% in December after the Bank of Canada [hiked interest rates](#) to 4.25%. The stock market surged 10.9% in October and November, as the central bank surprised investors by slowing its rate hike to 50 basis points from 75 basis points. But rising interest rate has started to affect companies with high debt. Many [renewable energy stocks](#) and real estate investment trusts (REITs) fell to their 52-week lows, as interest expense reduced their profits and stalled capital=spending plans.

### This TSX stock pays a 10.5% dividend yield

The current [bearishness](#) has made some mid-cap stocks super cheap and inflated their dividend yield in December. **True North Commercial REIT** ([TSX:TNT.UN](#)) stock dipped 5.66% to \$5.65 (near its 52-week low), inflating its distribution yield to 10.5%. As a REIT, it has to distribute a significant amount of rental money and capital gain from property sales to shareholders. Being a commercial REIT, True North earns higher rent than residential REITs.

The REIT has leased 95% of its portfolio (47 properties) and is collecting 99.5% of contractual rent from its tenants. It earns 80% of its rental income from government offices and companies with high credit ratings. What is concerning is the 95% distribution-payout ratio, which is high, even for a REIT. In the worst-case scenario, the REIT's occupancy could fall and force it to cut distributions due to a dip in rental income.

On the asset side, the rising interest rates could increase the acquisition and development cost of new properties, partially offset by falling property prices. The REIT's success depends on how efficiently the management profits from falling property prices without increasing interest expenses significantly. Assuming the REIT doesn't cut its distribution, a 10.5% yield can bring significant returns to your portfolio.

## What does a monster dividend like 10.5% mean to your portfolio?

True North Commercial REIT annually pays a \$0.59 distribution per share. The yield is distribution per share as a percentage of the current stock price (\$0.59/\$5.65). It increases when the stock price falls or the distribution amount rises. Think of it like how much money you pay per share to get a regular passive income for several years while keeping your principal amount intact.

For instance, Anna invests \$2,000 in True North Commercial REIT and locks in a 10.5% yield. She has 354 shares of the REIT that pays her \$208.85 annually, or \$17.4 a month. If the REIT continues to pay similar distribution, Anna could accumulate \$2,000 in passive income in fewer than seven years. In percentage terms, her \$2,000 investment doubled in seven years. It is over and above any capital appreciation as the stock recovers from the bear market.

## How to double your portfolio's dividend income

Why wait for seven years to double your money? Instead of just hoarding dividend income, Anna decides to reinvest the \$208 in other stocks, like **Enbridge** and **BCE**, which enjoy the status of being Dividend Aristocrats. While these stocks don't give 10% yields, they have average yields of 5-6%. Moreover, they grow their dividends every year.

Reinvesting the 10.5% monstrous dividend in less-risky stocks will help Anna diversify her passive income portfolio and enhance the yield. If she invests \$200 every year, she can buy three shares of BCE at an average price of \$61.5. BCE stock pays a \$3.68 dividend per share and grows it by 5% annually. In seven years, she can accumulate 21 shares of BCE.

At the end of seven years, Anna has 354 shares of True North Commercial REIT and 21 shares of BCE. If she stops reinvesting and starts collecting dividends, she can earn \$312 annually instead of \$208.85. By reinvesting her dividend money, Anna increased the dividend yield of her one-time investment of \$2,000 to 15.6%.

## Invest tax efficiently with TFSA

Investing income is taxable in a regular account. But if you invest through Tax-Free Savings Account (TFSA), you can reinvest the distribution income or withdraw it tax free.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. TSX:ENB (Enbridge Inc.)

3. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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#### **Date**

2025/08/24

#### **Date Created**

2022/12/24

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