



Why I'm Buying This TSX Stock for Passive Income

Description

When we talk about passive income, the conversation always centres on safety. I mean, what good is a passive-income stream if it will be gone tomorrow? This is why any TSX stock that we rely on for this passive income must have staying power. It's not always an easy thing to determine, but it's well worth the effort.

BSR Real Estate Investment Trust (TSX:HOM.UN) is an \$850 million real investment trust (REIT) that's been around since 1956. Please read on as I list reasons why this TSX stock is a safe place to go for passive income.

This TSX stock hits the nail on the head

There are 18 states that fall within the Sunbelt region of the United States. This region has been fast-growing, with low unemployment rates and a young population. BSR's core markets include cities within the Sunbelt that have some of the lowest unemployment rates in the U.S., including Austin, Dallas, and Houston.

BSR owns 31 multi-family real estate properties in these booming areas. So, it's no wonder that BSR has been so prosperous. For example, BSR has grown its revenue from \$64 million in 2018 to \$119.5 million in 2021 — that's an 87% growth rate over that period. Most recently, the growth is continuing strong. In fact, in the latest quarter (Q3 2022), revenue increased 11%. Also, net operating income increased 10%, and adjusted funds flow from operations increased 27%.

Being in the right location has definitely been a core part of BSR's success. Looking ahead, continued strong fundamentals are foreshadowing continued success. For example, in the latest quarter, strong rental demand enabled double-digit rental increases. A 12.3% rate increase on new leases, combined with a 10.3% rate increase on renewals resulted in a blended 11.2% rate increase.

Strong returns set up strong passive income

These strong fundamentals have driven strong returns at BSR. For example, the company's return on equity (ROE) is approximately 40%. Also, it's [return on investment](#) (ROI) is 17%. These returns are due to the strong industry fundamentals. But they're also due to strong management over at BSR.

Management's stated objective is to provide sustainable and growing distributions through both organic rental growth and acquisitions. That's great, as it coincides with our goal of generating passive income. Right now, BSR's dividend yield is a solid 3.63%. Also, its payout ratio is a healthy 19% — clearly, that dividend has room to go higher.

Lastly, BSR's debt load, or leverage, is reasonable. As a REIT, we fully expect the balance sheet to be filled with debt, as buying and/or building properties is a very capital-intensive business. But BSR's debt to total capitalization is at a reasonable 50%. This reflects the company's strong financial management and conservatism. And it's a very key selling point for this passive-income stock.

Rising interest rates are of concern for this TSX stock

Of course, rising interest rates are a consideration for all businesses these days. The rise has been so fast and so sharp that it surely will have at least some negative ramifications. But it doesn't have to get in the way of this passive-income stream.

BSR has taken actions to negate or lessen the effects of rising rates. For example, it's spread out its debt maturities over time. Currently, there are no debt maturities until 2024. Also, BSR has hedged its interest rate exposure through the use of interest rate swaps. Essentially, this means that all of its debt is fixed or economically hedged to fixed rates at a weighted average rate of 3.4%.

Trading below book value

Lastly, BSR is currently [trading below book value](#). This, combined with the strong returns that BSR has been generating, leads me to my conclusion that BSR is a really great opportunity today. Thus, we can get a solid passive-income stream at bargain prices.

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