1 of the Most Stable Stocks for Your Buy List

Description

In a year characterized by investment haircuts and blood shed, there is one stock that has not only outperformed the TSX market, but — dare I say? — has been one of the safest investments and deserving of your buy list.

This apartment-living company zigged while most of the market has zagged. I am talking about **Canadian Apartment Properties REIT** (TSX:CAR.UN), a Canada-based $6.6-billion-market-cap company which owns interests in approximately 46,790 residential units. REITs may seem less exciting as a sector overall, but it's hard to argue with a 22% one-year return.

I've held CAPREIT shares for many years. When I read the most recent annual report I concluded, "I should buy more." Although I'd done my homework (reading annual reports is good practice), I did not act on it. Talk of many interest rate hikes led to my hesitation, as rates can hurt just about any company with debt that floats with the base rate.

Yet, I believe CAPREIT can continue to beat the market. Investor confidence is decidedly high. Here are four pros and one con for this perennial market beater.

Debt under control

Relative to five other residential-oriented REIT stocks, CAPREIT actually has one of the lowest debt-to-asset ratios. This metric is important for REITs and is based on funds borrowed divided by the value of total assets. At ~40%, this is on the low end, as many competitors have debt-to-asset ratios approaching 53%. Even if you ignore the hot 2018 performance, CAPREIT had been chipping away at its debt over the last five years, well in advance of the interest rate climb. Well done!

Selling high

According to the regional economic development agency (Quebec International), 2017 was the second-best year in more than 20 years for the Québec City area for residential construction: "the number of new units in the area grew by 6640, a 39.3% increase from 2016." In a rather nimble move, CAPREIT's management followed the old adage of "buy low, sell high" for three Quebec City properties it owned to the tune of $24.9 million in total. After repaying the $10.2 million mortgage, the company will net a handsome profit.

Return on equity (ROE)

Any REIT that is able to deliver a double-digit ROE is fine by me. Two out of six REITs considered have an ROE above 12, one being CAPREIT. The other in the ROE>10 club is the "lazy landlord" **Killam Apartment REIT**.

Sector rotation

CAPREIT will continue to benefit from the rotation away from riskier assets. On the NYSE, one of the biggest REITs, **Simon Property Group**, is starting to rebound nicely after underperforming in 2017. Although, with the greenback riding at such a high exchange rate, it does not make sense to put Canadian dollars to work in the U.S. REIT space.

Pricey multiple

If there was one thing that counts against investing new money in CAPREIT, it would be the fairly lofty price multiple relative to its peers. For a REIT, it is good to evaluate the share price-to-free-cash-flow ratio. This ratio is now above 27, a high level relative to the company's range.

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bmacintosh