1 High-Yield REIT to Buy –and 1 to Avoid

Description

It would be so simple, so thrilling, to be able to just go through a list of stocks and pick out the ones with high dividend yields. Just pump a few of those into your portfolio and watch the cash roll in month after month, quarter after quarter.

But a high dividend yield doesn't necessarily mean it's all good news, especially if those shares are losing you way more money than you're getting.

That's why I'll be discussing two real estate investment trusts, a perfect dividend opportunity. While both have high-yield dividends, one is definitely superior to the other.

Morguard

Morguard Real Estate Investment Trust (TSX:MRT.UN) owns a diverse portfolio consisting of 49 retail, office, and industrial properties with a combined value of $3 billion. For investors, its shares trade at only half its book value, with a yield of 7.71% at the time of writing.

The company is enormous, which definitely helps it remain defensive, but it hasn't been performing over the top recently. While its recent earnings growth increased 8.5%, its earnings growth in the last five years hasn't been as impressive. Its debt is also quite high at 85% of its net worth, and isn't therefore covered by its cash flow.

The good news is that it has learned to scale back. Its net operating income declined 3.2% for 2018 to $40.4 million, with net income rising to $73 million.

In the next year, analysts believe that the stock will remain around the same price of between $12 and $13 per share.

Allied

Allied Properties Real Estate Investment Trust (TSX:AP.UN) is a prominent commercial REIT that focuses on converting industrial properties into modern work spaces. It currently operates 148 properties out of Toronto and Montreal.

This already is a bonus, as Toronto and Montreal haven't had the wild ride that some REITs saw in Vancouver, with both cities poised for growth. However, if there is an economic downturn, Allied could be in for some trouble.

People won't necessarily want to rent out premium spaces if they aren't making enough cash, so the company could sink from its all-time highs.

The company's fair value is seen as tremendously overvalued at this time, with a PEG ratio of 9.45. Shares trade at the time of writing at $47 per share, with analysts predicting growth of between $50 and $55 in the next 12 months.

This leaves its dividend looking pretty unattractive compared to its peers at 3.24% at the time of writing.

Who wins, who loses?

While Allied can look attractive on the outside, and analysts still believe it has some growth, I would stay away from this REIT. Its dividend is fine, but nothing like the one Morguard offers. While a slump could provide a perfect buying opportunity, it's unclear how long it could take Allied to come back from the ashes.

Morguard, on the other hand, provides such an opportunity right now. The stock should remain low through a recession, but with a high dividend that should keep investors happy in the meantime. Its sheer size means that it'll come out the other end with enough cash to support the company through an economic downturn, and start up expansion again once the books are again balanced.

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Date
2025/07/21
Date Created
2019/05/05
Author
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