

Higher payouts show the sky isn't falling in trust-land
Rob Carrick

Aeroplan Income Fund did something a few weeks ago that income trusts do all the time without getting much credit.

So did Trinidad Energy Services, Eveready Income Fund, GMP Capital Trust, Carfinco Income Fund and DirectCash Income Fund. By increasing the monthly cash distribution to unitholders, each of these disparate income trusts offered a reminder that many trusts are built on businesses that are doing just fine these days.

It sometimes seems that income trusts live in an accentuate-the-negative world. If a trust cuts or suspends its cash distributions, it's cited as yet another warning that lots of trusts are relying on flimsy businesses to make those regular cash payouts. If a trust increases its distribution, it often goes unnoticed.

Investors certainly need reminding about the need to be choosy when picking individual trusts because an alarming number of duds have been brought to market in the past few years.

But it's just as important to note the trusts out there that are generating enough money to not only pay their distributions but also increase them.

If you're looking at individual trusts to buy, a pattern of rising distributions is a strong indicator of a well-run enterprise. Think along the lines of a common stock that is consistently profitable enough to regularly bump up its dividends.

As well, there's a double-barrelled financial benefit to your portfolio from owning trusts that increase their distributions. First, a rising distribution will increase the yield on your invested capital. Second, rising distributions tend to feed increases in the unit price.

Trusts aren't a slam-dunk choice just because they have increased their distributions one or more times.

Still, a trust that increases its payout is sending a positive signal about its ability to manage its central function, which is to turn the profits of a business into regular cash flow for unitholders.

Aeroplan, based on the popular travel rewards program, generated a lot of investor interest when it was brought to market about a year ago. At the end of May, it announced its monthly payout would rise by 7.2 per cent, to 6.25 cents from 5.83 cents a unit. This isn't a huge increase, but it's still significant in that it tells the markets that Aeroplan is a going concern and not the sort of stagnant no-growth business that naysayers have held up as being prevalent in the trust sector.

Trinidad Energy Services is in the oil-drilling business, which means it has benefited greatly from the run-up in oil prices in the past few years. But even with that context, this trust's record of distribution increases is impressive. With its most recent change, Trinidad has taken its monthly payout to 11.5 cents a unit from 3 cents in early 2003.

The key question an investor should have about an increased distribution from a trust is whether it's sustainable. It looks extremely bad to raise a distribution and then cut it back, so you'd think that management would be careful about such things.

And yet, some trusts have had to backtrack on distribution increases.

Superior Plus Propane regularly increased its monthly payout between 2001 and 2005, but this year it has run into trouble and cut its distributions twice. Unitholders benefited from a rise to 20.5 cents from 20 cents last December, then had the amount cut to 18.5 cents this April and then cut again to 13 cents in June.

Some of the most reliable trusts for increasing distributions regularly are REITs, or real estate investment trusts, which own portfolios of office buildings, strip malls, apartments, hotels and other types of property. A good example is RioCan, which has increased its payouts annually for close to a decade. The amount of the increases is far from dramatic -- last year the payout was bumped up 3.7 per cent. Yet RioCan can still be credited with sending a signal to its unitholders that their income flow is safe and sound.

Business trusts are prominent on any list of trusts that cut or suspend distributions, but there are players in this sector with excellent records of raising their cash payouts regularly. Energy Savings Income Fund has raised its distribution 22 times in the past five years, most recently in June. Newalta Income Fund has raised its monthly payout five times since 2003, and Boston Pizza has hiked its payout nine times since 2002.

Long-time investors in these trusts have benefited from rising yields and cumulative three-year unit price increases ranging from 62 per cent for Energy Savings to 197 per cent for Newalta. In more ways than one, those rising distributions can really add up.