Smart REIT: A Great Way to Invest in Wal-Mart Canada

Description

Although most investors could do a lot worse than loading up on **Wal-Mart Stores Inc.** (NYSE:WMT) shares, I'm the first to admit there are a few reasons to avoid investing in the giant from Arkansas.

Its status as the world's largest retailer is both a positive and a negative. Exposure to other areas of the world is nice when the U.S. consumer struggles. But when the U.S. market is strong–and the dollar is doing well–it can lead to temporarily distressed earnings once converted back to local currency.

Say you wanted exposure to Wal-Mart's Canadian division specifically. Many experts say life is going to be tough for many smaller retail stores as tapped-out Canadian consumers slow their spending. In an environment like that, it's easy to be bullish on Wal-Mart. The company does pride itself on low prices, after all.

But if an investor goes out and buys Wal-Mart shares on the New York Stock Exchange, they get exposure to stores all over the world. There's no way to invest in Canada directly.

There is another solution. Investors who invest in **Smart REIT** (TSX:SRU.UN) aren't quite making an investment in Wal-Mart, but they are getting pretty close. Here's why the two companies are so related.

A close relationship

Smart REIT is the owner of some 30.5 million square feet of leasable retail space, spanning 150 different locations across the country. The company also has 4.7 million square feet of development projects planned. All together, these assets are worth approximately $8.4 billion, making Smart one of Canada's largest REITs.

Smart was formed when Calloway REIT merged with SmartCentres back in 2015. As part of the deal, the new company got to keep the founder of SmartCentres on as a strategic advisor. Mitchell Goldhar has long been considered one of the best developers in Canada.

Goldhar and Calloway had a strong history of working together. Goldhar would sell Wal-Mart-anchored properties to Calloway in exchange for shares of the rapidly growing REIT. Some were sold, but many more of the properties were kept in SmartCentres.

It was only natural the two companies would combine as one at some point.

Both companies made an effort to diversify away from Wal-Mart even before they combined as one. Still, 26.9% of all revenue comes from the world's largest retailer, and approximately 65% of its 150 different locations are anchored by Wal-Mart stores.

Why this is a good thing

The shopping mall used to attract all the foot traffic a store needed.

It's not quite that simple these days. Kids don't hang out in malls anymore. And many adults despise them, choosing to do their shopping online instead.

Retailers have adapted in a pretty predictable way. Wal-Mart continues to attract lots of foot traffic. Thus, retailers have moved closer to Wal-Mart. Its foot traffic spills over to other stores even if the product mix is pretty similar.

Smart REIT has been a big beneficiary of this phenomenon. It currently has an occupancy ratio of 99%, by far the best of any retail REIT in Canada. Competitors are anywhere from 85% to 95%.

And remember, Smart's portfolio is relatively new. Retailers would much rather set up shop in a new development than one showing its age.

Get paid to wait

Not only is Smart a nice way for investors to invest in Wal-Mart Canada, but it also pays a nice dividend. Shares currently yield 4.5%.

That yield is quite low compared with many of its competitors, but it's easy to see why. Investors like Smart's Wal-Mart exposure, its new portfolio, and its high occupancy. The dividend is more of a bonus.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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