



Trading Close to a 50% Discount, This REIT Is a Strong Buy!

Description

Last week, shares of **Melcor Developments Ltd.** ([TSX:MRD](#)) climbed above the \$15 mark and began what might be an incredible run with upwards potential to return more than 100%.

Although the company is not well known by many investors and has only 33 million shares outstanding, the market capitalization is now more than \$500 million, making this a very attractive investment opportunity for many long-term investors.

The company based in Edmonton, Alberta, has been hit very hard by the slowdown in the oil sector, which is the biggest driver of the provincial economy. Although the company is a diversified real estate company which operates in four different segments, investors (and the market) have not hesitated to price in the worst for this company.

The four segments are the development of residential properties (home building), the commercial division, which owns and rents out office and industrial space to tenants, the retail segment, which rents plazas to stores and restaurants, and the golf course division, which owns and operates four different golf courses.

When considering each of these segments individually, it is clear that the home building and the golf course segment have also cooled down significantly. The rental of both offices/industrial and the retail stores, however, are based on long-term leases, which continue to bring in money to the company.

When the economy in Alberta was booming in 2014, the share price traded in excess of \$25, which, at the time, was equal to the company's tangible book value per share. Now that it's trading closer to \$15, the company is a steal. As of the most recent quarter end (June 30), the tangible book value was no less than \$29.30 per share!

While the home building segment has clearly slowed down significantly, it is important to realize that consumers are still playing golf, albeit at a lesser pace, and the rental divisions are still operating very well.

With the positive cash flows continuing to roll into the company's coffers, investors purchasing shares

for half price are being paid a healthy dividend yield of 3.5% on a quarterly basis. Being paid to wait is always nice.

Although many real estate investment trusts offer substantially higher dividend yields than shares of Melcor Developments Ltd., it is important for investors to realize that when buying shares of this company, the risk/reward profile is a little higher. With an upside potential of close to 100%, investors may need more than one year to realize the full value of this investment.

If the stock were to double over the next three years, the price returns alone would be no less than 26% if compounded annually.

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1. Dividend Stocks
2. Investing

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