Here’s a Smart Way to Play the Fall of Retail

Description

Many investors are scared to death of the retail industry as a whole thanks to e-commerce giants that have disrupted the industry over the past decade. E-commerce retailers are here to stay, and they’re just going to get stronger as time progresses. Traditional brick-and-mortar retailers are going to be the victims of this trend, and this has many investors cutting ties with their long-time retail stocks, but is this really warranted?

Warren Buffett says to “be greedy when others are fearful,” but what about in the case of a technological disruption that’s going to permanently impact the landscape of an entire industry? While the retail industry is facing significant headwinds, it’s important to take a step back and realize that not all businesses are created equal.

Some retailers are struggling to pay back debts, as in the case of Toys R Us, my favourite store to go to as a child, while other retailers, like **Canadian Tire Corporation Limited** (TSX:CTC.A), are adapting and excelling as the industry landscape continues to shift.

The point is that you shouldn’t shun an entire industry just because the general public deems it’s the best way to deal with an unstoppable industry disruptor. You should, however, be extra cautious, and really do your homework to avoid picking stocks of a business that may die at the hands of the e-commerce disruption. Some retailers are stronger than others, and these are the retailers that you shouldn’t shun just because they’re out of favour with the average investor. Many times, the stocks of these businesses have been unfairly beaten up thanks to industry-wide turmoil.

Consider **Smart REIT** (TSX:SRU.UN), an attractively valued shopping centre real estate play with a whopping ~6.2% dividend yield that has been beaten up because of the weakness experienced in the retail business of late. Shares are down ~23% from all-time highs, and it appears that the negative momentum may potentially drive the yield to the 7% levels.

Okay, it’s a shopping centre REIT, and if traditional retailers are going out of business, why would anyone go to a mall? We’re living in the days of a “stay-at-home” economy, after all.

Here’s why I believe the sell-off at Smart REIT is overblown: the trust has very high-quality tenants.

Remember the high-quality retailers that have the ability to adapt? These are the kinds of companies that make up a majority of Smart’s overall tenants. We’re talking hardware stores, banks, coffee shops, grocery stores, dollar stores, and restaurants. These are retailers that thrive in spite of e-commerce disruptions.

Of course, not all of Smart’s tenants are retailers that can weather the storm of the e-commerce disruption; however, it’s worth noting that even if some of these retailers go belly up, Smart REIT’s dividend won’t suddenly be in jeopardy. Vacancy rates may rise slightly if this happens, but it’s important to note that such vacancies will be gradual over time — they wouldn’t all happen at once!

Smart has also invested in a project to diversify away from shopping malls, but let’s be realistic, Smart is always going to primarily be a mall REIT, but there’s nothing wrong with that. Shares of SRU.UN are unfairly beaten up because of fears of the retail sector. Buy shares now and collect that massive dividend — a smart move indeed.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/26
Date Created
2017/10/09
Author
joefrenette