



My Top Pick of 2019 Is This REIT With 76% Upside

Description

I've long been a believer that the best opportunities to buy mispriced assets is in the small-cap universe.

The reasoning is simple. Many investors avoid smaller companies altogether, including most of the powerful fund managers. It's simply a matter of size; they would need to buy up too much of a tiny company to get a decent position. Many individual investors follow this lead and eschew that part of the market, too.

While I'm convinced the small-cap universe has more bargains, every now and again a gigantic company enters hardcore value territory. I get extra excited when this happens, since I know every fund manager can buy shares, too. That will help push the investment higher.

I believe such a situation is playing out today with **Brookfield Property Partners** ([TSX:BPY.UN](https://www.bse.com/quote/BSE:BPY))(NASDAQ:BPY). In fact, I like it so much I've named it my top pick for 2019. Here's why.

Fantastic assets

First and foremost, I want to own great underlying assets. And Brookfield Property Partners delivers.

Brookfield has one of the largest real estate portfolios in the world, with assets covering Canada, the United States, Asia, Europe, South America, and Australia. Some of its more well-known properties include First Canadian Place in Toronto, Brookfield Place in New York City, London's Canary Wharf, Fashion Show Mall in Las Vegas, Berlin's Potsdamer Platz, and dozens more. In total, Brookfield Property Partners owns some \$90 billion in assets.

Brookfield also recently acquired General Growth Properties, the largest shopping mall owner in the United States. Some investors didn't like this move, specifically the general trend away from physical stores. But that trend is largely impacting subprime malls. If anything, the cream of the crop will become stronger when these weaker players exit the market. Brookfield specifically targeted GGP because it has great assets.

GGP's properties also come with significant redevelopment potential. Brookfield has already identified dozens of opportunities to use excess parking space for apartments or additional retail. And there's plenty of potential to improve these malls, which should drive higher rents over time.

A better price

Normally, investors are required to pay a premium to own great assets, but not today with Brookfield Property Partners. Its portfolio is currently on sale for a bargain price.

Let's start with the price-to-book value. The company's management pegs net asset value at approximately US\$30 per share, while the NASDAQ listing trades at US\$17. That's a discount of 43%. Or, to put it another way, shares would trade 76% higher if they hit net asset value.

Shares are also cheap on a price-to-funds from operations ratio as well. In the first nine months of 2018 — fourth quarter results aren't out yet — the company generated US\$1.04 per share in funds from operations. Keep in mind this only includes earnings from GGP for the third quarter. Annualized, this works out to approximately US\$1.40 per unit, putting shares at just 12 times funds from operations.

And remember, cash flow will increase over time as it digests the GGP acquisition, rents get raised on existing properties, and various development projects start producing income. Management projects that cash flow from operations could hit US\$2.15 per share by 2022, which doesn't count any fair-value gains created by smart development decisions.

A fantastic source of income

Finally, we have the cherry on top. Brookfield Property Partners pays a great dividend while you're waiting for shares to appreciate.

The current yield is 7.4%, which is attractive enough on its own. But management has pledged to make it all the sweeter, enticing investors with predictions of 5-8% distribution growth through 2022. This means dividends could be as high as US\$2.15 per share in 2022, which would represent a 12.6% yield on cost on units purchased today.

The bottom line

Brookfield Property Partners has everything a value investor should be looking for. It owns a nice basket of assets available for an attractive price. And it pays a fantastic distribution with loads of potential to grow that payout over time.

Opportunities like this don't come along very often. If you buy today, I bet you'll be very happy a year

from now.

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1. TSX:BPY.UN (Brookfield Property Partners)

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Author

nelsonpsmith

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