This Little-Known REIT Offers a 7.9% Yield Plus Limitless Growth Potential

### Description

The TSX is filled with small-cap stocks that deserve more attention. Yet many investors don't even bother with them, choosing instead to focus their attention on Canada's largest companies or mega-cap stocks in the United States.



This is a mistake, at least in this analyst's humble opinion. Some of these stocks will be the blue chips of tomorrow. They own solid assets today with potential to make shrewd acquisitions to further expand the business. Some are in sectors that naturally offer a lot of growth potential.

Sometimes investors can get all this and collect a massive yield while waiting.

This is exactly the situation facing **NorthWest Health REIT** (TSX:NWH.UN). Here's why it deserves a second look.

## The skinny

NorthWest has amassed a nice portfolio of medical-related assets around the world.

The company owns eight hospitals in Brazil, dozens of different types of medical properties in Germany, hospitals and assisted-living facilities in Australia/New Zealand, and a smattering of private health facilities and medical office buildings in Canada. Together, the portfolio consists of 149 different properties and 10.1 million square feet of gross leasable space. The company also gains fees from managing the Australian assets as a joint venture with other parties.

NorthWest works alongside governments to ensure win-win relationships. NorthWest gets a nice cap rate on its real estate and a long-term lease, while the government gets a facility that serves its need without spending taxpayer money on big construction projects. This leads to long-term leases and strong occupancy. The trust currently has 96% occupancy and the average lease has 12 years left.

The growth market in health-related real estate is obvious. Industrialized nations around the world are dealing with aging populations. Governments will have to invest additional resources into giving these folks the care they need, including procuring new real estate. NorthWest is a prime candidate to own these buildings.

It also has potential to acquire existing facilities as well as entering new markets. It doesn't even have exposure to the United States currently, for example. The sky truly is the limit here.

## Valuation

Investors aren't just getting growth potential with NorthWest. It also trades at a very reasonable valuation.

Let's start with adjusted funds from operations (AFFO), which many analysts identify as the key metric when determining a REIT's true earning power. NorthWest posted $0.88 per share in AFFO over its last four quarters versus a share price today of $10.13. That gives it a reasonable price-to-AFFO ratio of 11.5. Management is convinced they can grow AFFO to $0.95 per share in the next few years.

Next we'll look at the REIT's net asset value, which checks in at approximately $11 per share today. Again, management is optimistic, saying $12 per share is possible in the next few years. Even if that doesn't happen, investors are still getting a small discount versus net asset value today.



## Dividend

The stock currently pays a 7.9% dividend, one of the best payouts in the whole REIT sector.

The payout ratio is a little high, but it should be fine. It's approximately 90% of adjusted funds from operations today, with that potentially dropping to 80% if AFFO expands to management's target levels.

NorthWest hasn't missed a distribution since its 2010 IPO, but it hasn't hiked the payout either.

## The bottom line

Northwest Health REIT has a great deal going for it. Investors get two types of diversification with an investment — in a real estate sector they likely didn't consider and markets like Brazil and Germany. It has fantastic growth potential and you're paid a nice distribution while waiting for that potential to become reality.

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