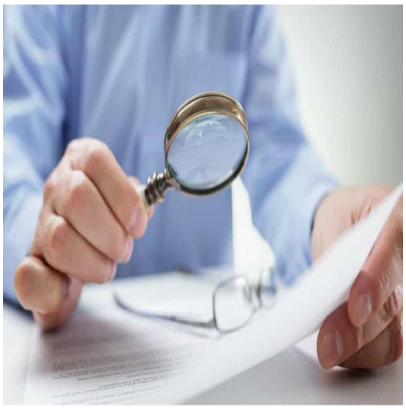

Value Investors: You Need to Check Out This Ridiculously Cheap Stock

Description

With the **TSX Composite Index** bumping up against new highs, it's understandable why value investors are getting a little frustrated. It was just a few short months ago everything seemed cheap, and now inexpensive stocks are few and far between.

But there is some value out there today. You just have to look a little harder to find it. Let's check out one of Canada's cheapest REITs, a company trading at a huge discount to its peers on a number of different metrics.

Enter Melcor

Investors should note there are two Melcor investments on the Toronto Stock Exchange. The parent company is **Melcor Developments**, while we're going to focus on the majority-owned subsidiary, **Melcor Real Estate Investment Trust** (TSX:MR.UN).

Melcor REIT owns 36 properties in Alberta, Saskatchewan, and British Columbia, totaling close to three million square feet of gross leasable area. A little more than 50% of assets are in office space, approximately 40% in retail, and the remainder are invested in industrial property.

The company's large exposure to the Alberta market has been viewed negatively, as the province continues to struggle with low energy prices. But occupancy continues to be in the 90% range, and the company has been able to successfully negotiate lease renewals in today's soft market.

The portfolio has a nice mix of tenants, with no one renter comprising more than 5% of total rents. Top tenants include the Government of Alberta, **Royal Bank**, and Alberta Health Services. Like any REIT, the company has the potential to buy third-party assets. But it also has the big advantage of having the right of first refusal to buy any assets the parent company develops. This pipeline could increase the REIT's size from just under three million square feet of leasable area today to up to 9.5 million by 2029.

Melcor is also expanding its development business to the United States, which could potentially offer the REIT attractive diversification opportunities in the upcoming years.

2018's results were mixed. Revenue crept up 5% versus 2017's results, surpassing $70 million for the first time. But adjusted funds from operations were weaker than the previous year, falling 5% to $0.68 per unit. Part of this decrease was from giving tenants rental incentives, as well as higher leasing fees. Investors should note that funds from operations, which doesn't include these one-time costs, checked in at $0.93 per unit.

Shares trade at $7.76 each as I write this. This gives the stock a price-to-funds from operations ratio of just 8.3 times, making it one of the cheapest REITs on the Toronto Stock Exchange today. And shares trade at a mere fraction of the company's book value, which stood at $15.04 per unit at the end of 2018.

Investors are also getting a fantastic dividend — a payout that is supported by funds from operations. The current distribution is $0.68 per share annually, a dividend that has been maintained since the trust's 2013 IPO. That's good enough for an 8.7% yield today.

The bottom line

You won't find many REIT's cheaper than Melcor. The fund trades at a low price-to-funds from operations and price-to-book value ratio, which should revert to more normal levels as Alberta's economy recovers. The company also has nice growth potential, both from acquiring properties from the parent and scooping up cheap Alberta-based locations from distressed sellers.

Value investors, take note. This opportunity won't be around forever.

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