



This High-Quality REIT Just Hit a Bargain-Basement Price

Description

One of the issues with [value investing](#) is you're forced to pick through a lot of low-quality stocks. Most companies are cheap for a reason.

This is why thousands of former deep value devotees (me included) have embraced a slightly different approach. We patiently wait until great stocks sell off a little and then add them to our portfolios.

This is happening right now, thanks to recent weakness in the market. It's a terrific time to add to stocks that have previously been a little overvalued. Sure, we could go down more, but the fact remains that buying the dip has been a great strategy for years now. Most declines are small corrections on the way to new all-time highs.

With that in mind, let's take a closer look at one of Canada's top REITs, a stock that has recently hit a new six-month low.

A smart investment

There's a lot to like about **SmartCentres Real Estate Investment Trust** ([TSX:SRU.UN](#)).

Let's start with its portfolio mix. The company's current holdings include 34 million square feet of gross leasable retail space and 3.3 million square feet of future leasable space under development.

The majority of its retail properties are anchored or shadow-anchored by a **Walmart** store, a partnership that drives foot traffic to other retailers. This ensures that SmartCentres can maintain an above-average level of occupancy; its current occupancy ratio is above 98% while most of its competition is between 90 and 95%.

I'm a big fan of Smart's existing portfolio because of the Walmart exposure and the average age of its buildings are all quite new. But it's the development pipeline that has me really excited.

The company is in the process of turning some of its Walmart-anchored space into mixed-use

developments that will include office space, condos, and senior living facilities.

Highlights of the development pipeline include more than a million square feet of office space located in Vaughn, a joint venture to expand current outlet malls in Toronto and Montreal by half a million square feet, and the addition of nearly 1,200 rental apartments in three different developments.

The company's self-storage partnership also plans to add 500,000 square feet of gross leasable space to the portfolio annually through 2024.

In total, the company has 33 development projects underway, an additional 49 currently in the planning stages, and 86 potential projects after that. That's enough to keep it busy for at least another decade, and when completed could potentially double the size of its portfolio.

There are few other Canadian REITs that offer this kind of long-term growth potential.

A terrific bargain

Investors should like buying terrific companies no matter what price they trade for. But they should get really excited when these stocks plunge, and start buying hand over fist.

Since the end of March, when the stock hit its high so far in 2019 at just over \$35 per share, SmartCentres' shares are down nearly 10%. While that may not seem like much, it's actually a pretty big move for the stock.

The last time the stock declined so much was back in late 2017, when it fell from \$33 to \$29. A year later, investors were looking at a 15% total return.

Shares are also relatively cheap on a price-to-funds from operations basis, with the company on pace to generate \$2.22 per share in adjusted funds from operations in 2019. That puts the stock at 14.4 times forward funds from operations, which is about 10% cheaper than normal.

Investors are finally locking in a nice 5.6% dividend yield if they buy today, a payout that has increased each year since 2014.

The bottom line

A 10% sell-off might not be enough for some investors, but many need to remember that [high-quality companies](#) attract buyers even after just a small decline. That's the position I believe we're in today with SmartCentres REIT.

This stock is well positioned to perform well for a decade or two. If it reaches that potential, I think you'll be very happy with a purchase today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date

2025/08/17

Date Created

2019/08/23

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