The Top REIT Yielding 7% to Buy in November

Description

There are claims that real estate investment trusts (REITs) are overvalued, making them unattractive investments. While REITs have performed solidly since the start of 2019, in part because of their growing attractiveness for income hungry investors, many remain appealing investments and possesses solid growth prospects.

One that is not only positioned to deliver considerable value, but also possesses solid defensive characteristics is **NorthWest Healthcare Properties** (TSX:NWH.UN), which has gained a notable 27% for the year to date.

Solid results

The REIT recently reported some solid third-quarter results, thereby indicating that it will continue to deliver value for unitholders. NorthWest's revenue popped by almost 5% year over year, while adjusted funds from operations (AFFO) increased by 10% to $0.22 per unit and it reported a net profit of $18 million compared to a loss of $28.5 million a year earlier.

Those strong results were driven by a strong occupancy rate of 97.1% and acquisitions, including the strategic $1.2 billion Healthscope deal and $90 million of asset purchases in Europe.

NorthWest's assets will continue to drive higher earnings for the foreseeable future, particularly the 11 properties acquired through the Healthscope purchase.

The REIT also has $358 million of projects under construction and another $43.5 million of committed developments that will boost earnings once complete.

It's anticipated that they will add around $26 million to net operating income (NOI) between the end of 2019 and 2021.

NorthWest's net asset value (NAV) also continues to grow. By the end of the third quarter it had expanded by almost 7% year over year to $12.06 per unit, which is marginally higher than Northwest's market value and highlighting that it is attractively valued.

In fact, a quality REIT like NorthWest typically trades at a premium to its NAV, thereby indicating that there is considerable upside available for investors, making now the time to buy.

NorthWest also pays a regular monthly distribution yielding a juicy 7%. That yield is significantly higher than those generated by traditional income-producing assets such as GICs and bonds.

It is also sustainable when considered that NorthWest's distribution has a payout ratio of 98% of trailing 12-month (TTM) AFFO. That ratio should fall to a more manageable level as earnings grows over the coming year because of recent asset purchases and projects under development being completed.

NorthWest also finished the third quarter with a solid balance sheet, ending the period with a debt to gross book value of just under 53%, a 0.4% improvement over the previous quarter.

What makes the REIT a particularly compelling investment, aside from the considerable growth potential, is its wide economic moat that protects it from competition and essentially assures that its earnings will continue to grow.

The medical sector is heavily regulated and has steep barriers to entry thereby reducing competition and creating an almost oligopolistic market, allowing NorthWest to an extent act as a price maker rather than price taker.

Demand for medical services remains relatively inelastic. When this considered in conjunction with the powerful tailwind created by an aging population in NorthWest's principal markets of Canada, Australia and Germany, the REIT's long-term earnings growth is virtually assured.

Those characteristics also help to shield NorthWest from economic downturns, making it a top defensive choice to hedge against the risk of recession.

Final thoughts

NorthWest is a top stock for investors seeking a mixture of growth and defensive attributes. When those characteristics are considered in conjunction with it trading at a slight discount to its NAV and the sustainable distribution yielding a juicy 7%, now is the time to buy.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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