This Misunderstood High-Yield Canadian REIT Is Too Cheap to Ignore

Description

Even though it's been shown over the years that robust brick-and-mortar retailers can survive alongside their e-commerce counterparts, the retail scene (including retail REITs) has continued to be out of favour with many investors who unfairly shun them.

In the investing world, the word "brick-and-mortar retail" seems to have become a bad word.

Just hearing it makes some think of the "death of the shopping mall" phenomenon, which has been a pressing issue, especially in the U.S. market.

While a dying industry undoubtedly leads to better headlines, I think that most investors are heavily discounting the possibility that many of today's better-run retailers (and malls) are either near or are approaching equilibrium with their digital competitors.

Now, retail is a highly-competitive and cut-throat industry, and many poorly-run brick-and-mortar players could still go belly up. But that doesn't mean the best-in-breed retailers who've effectively adapted to the changing retail landscape won't be able to gain ground over their digital disruptors.

Consider **Wal-Mart Stores** (NYSE:WMT), one of the best-in-breed traditional retailers that's successfully adapted with the new era. Thanks in part to a brilliant management team that's recognized it can blend the realm of the physical and digital to provide exceptional experiences to consumers, the retailer has what it takes to fight off the most prominent retail disruptor of them all in **Amazon.com**.

For Canadians, there's an income-savvy way to ride on the coattails of Wal-Mart, and that's through **SmartCentres REIT** (TSX:SRU.UN), a misunderstood 5.8%-yielding REIT with 115 Wal-Mart-anchored stores at the time of writing.

The retail REIT houses some of the most influential brick-and-mortar retailers in Canada, as I mentioned in prior pieces. It's these high-quality tenants with Wal-Mart on top that drives mall traffic to the benefit of all retailers at a Smart Centre location.

Wal-Mart beckons in Canadians, which tend to stick around and check out the other retailers in the vicinity. The fact that many Smart Centres are Wal-Mart-anchored increases the value of the area that's leased to other tenants. And it's not just Wal-Mart that SmartCentres has going for it over the long haul.

SmartCentre REIT is looking to mix in residential real estate to further bolster the value of its leasable retail area. The diversification away from retail toward mixed-use properties is a common trend among many of the big retail REITs these days. And it's a trend that I believe could bolster AFFOs over the long haul.

At the time of writing, SmartCentres REIT shares are down 17% from 2016 all-time highs. So, if you're not one that believes that Canadian shopping malls are going the flop anytime soon, I'd be a buyer of the name today before the "death of the shopping mall" fears and the discount on shares have a chance to fade away.

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Date
2025/08/13
Date Created
2019/12/03
Author
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