



This 8.4% Yielder Might Be Canada's Cheapest Stock

Description

One thing that many value investors find frustrating during a bull market is nothing seems to be cheap anymore.

Sure, you can always find stocks trading at low price-to-earnings and price-to-book value ratios, but they seem to have major warts. They're companies that clearly deserve a low price and will likely struggle to turn things around.

But every now and again, a deep value stock emerges from this carnage that shines a whole lot brighter — a company that probably doesn't deserve all that investor scorn.

One such stock I'd like to feature today offers predictable cash flows, a rock-bottom valuation (with a potential catalyst), and a succulent yield while you wait for the stock price to recover.

Value investors, you gotta check this one out.

The skinny

Morguard REIT ([TSX:MRT.UN](https://www.scribd.com/document/444444444/TSX:MRT.UN)) is a diversified owner of commercial real estate assets across Canada, with the majority of its holdings located in Alberta and Ontario.

The total portfolio spans 48 office, retail, and industrial properties, with a grand total of just under 8.5 million square feet of gross leasable space.

One thing that has hit Morguard hard is its Alberta exposure. Approximately 30% of total rents come from the province, and investors are understandably nervous about the future there.

But we must give credit to Morguard's management; results from Alberta have been solid, with occupancy staying high, even throughout tough economic times.

Rather than acquire assets over the last couple of years, Morguard has spent its excess cash

redeveloping some of its current holdings.

Projects included building an LRT station into one of its office towers in Ottawa, repurposing space vacated by **Target** when it left Canada, and renovating one of its marquee office towers in Edmonton.

These moves are helping results stay relatively stable, with the company posting a tiny decline in revenue thus far in 2019 versus the same period in 2018.

Funds from operations have declined slightly, falling from \$1.14 per share to \$1.10 through the first three quarters of the year. Although you don't never want to see cash flow decrease, the trust is doing a fine job considering the issues in Alberta.

The opportunity

Despite posting fairly consistent results, Morguard shares are still [very cheap](#) here. We're talking *insanely* cheap.

Let's look at net asset value first. At the end of its most recent quarter, Morguard REIT had a net asset value of \$1.55 billion, which translates into \$22.43 per fully diluted share.

The stock price is currently \$11.55 per share, which means that shares trade at roughly half book value.

Some investors argue that book value is a little inflated, but there's no denying that the stock is still cheap on a price-to-book value basis, even if the value of the portfolio should be written down a little more.

Let's look at earnings next. The company should do approximately \$1.45 per share in funds from operations this year, which is essentially a REIT's measure of earnings, putting the stock at just eight times earnings, which is quite cheap. Some of [Morguard's peers](#) trade at valuations twice as high.

Finally, I must mention **Morguard Corporation**, Morguard REIT's parent that owns a majority stake in the trust. The company has been slowly acquiring shares of its subsidiary over the last few years, taking advantage of the cheap price to boost its position. A big potential catalyst could be a takeover offer for the shares it doesn't already own.

The bottom line

There's no denying it. Morguard REIT shares are cheap today.

Unfortunately, I have no idea when the gap between the share price and the net asset value will narrow in investors' favour. The good news is that you can sit back, relax, and collect Morguard REIT's 8.4% dividend in the meantime — a payout that is easily covered.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. TSX:MRC (Morguard Corporation)
3. TSX:MRT.UN (Morguard Real Estate Investment Trust)

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