Buy This REIT Yielding Almost 7% to Hedge Against Growing Uncertainty

Description

Considerable uncertainty has gripped financial markets over the last week because of a sharp uptick in tensions in the Middle East as the relationship between the U.S. and Iran continues to deteriorate. Many stock markets dipped sharply after Iran retaliated against U.S. airstrikes launched last week.

Those tensions coupled with uncertainty over whether the trade war between the U.S. and China as well as fears of a global recession make it imperative for investors to weather-proof their portfolios.

While gold is seen as the ultimate hedge against uncertainty, another credible means of doing so is to invest in **NorthWest Healthcare Properties REIT** (TSX:NWH.UN), which has gained 16% over the last year and is poised to deliver further value.

Quality portfolio

Real estate investment trusts (REITs) typically possess solid defensive characteristics and a wide economic moat, meaning they are resistant to market slumps.

NorthWest Healthcare rates as one of the best defensive stocks not only because it owns real estate, a hard asset, but also because it also operates in the healthcare sector.

The sector has steep barriers to entry because of strict regulatory requirements and the significant amount of capital required to acquire properties, endowing NorthWest with a wide economic moat that defends it from competition and protects its earnings.

NorthWest owns a portfolio of 171 healthcare properties in Canada, Australia, New Zealand, Germany and Brazil. The relatively inelastic demand for healthcare coupled with rising demand for medical treatment because of aging populations in the developed nations, where the company operates protects its earnings, making it resistant to economic downturns.

As a result, the REIT is trading with a beta, a key measure of a stock's volatility, of 0.76, indicating that it is significantly less volatile than many other stocks and the broader market and further emphasizing its attractiveness as a defensive investment.

NorthWest finished the third quarter 2019 with an occupancy rate of 97.1%, which was 0.08% greater than for the equivalent period in 2018. It also reported that net operating income had risen by 7%, that funds from operations (FFO) gained 8% and adjusted FFO (AFFO) shot-up by a very healthy 29%.

That solid growth was reflected in NorthWest's bottom line for the period with net income of almost $18 million compared to a $28 million loss a year earlier.

NorthWest's earnings will continue to grow at a solid clip. In January 2019 it announced the needle-moving $1.2 billion acquisition of 11 healthcare properties in Australia from Healthscope. The deal was believed to be immediately accretive and estimated to add up to $60 million in rental income to NorthWest's earnings.

The REIT also advanced the purchase of five other properties during the third quarter including one in Germany, two in the Netherlands and another two in Canada. And that, along with increasing the investment in its Australian healthcare property joint venture will further boost earnings during 2020.

Those deals will also further boost NorthWest's net asset value (NAV), which at the end of the third quarter was calculated to be $13.55 per unit, 14% greater than its current market value. This indicates there is substantial upside available, making now the time to buy.

Foolish takeaway

NorthWest is an attractively valued high-quality REIT trading at discount to its NAV. Not only does it possess solid defensive attributes, which make it an ideal hedge against growing economic and geopolitical uncertainty, but its earnings and NAV are poised to expand at a decent clip.

When those factors are considered along with its sustainable distribution yielding a very juicy 6.7%, now is time to buy NorthWest.

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TICKERS GLOBAL

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

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