Investors: How to Buy Some of Canada's Best Real Estate at 34% Off

Description

Everybody likes a good sale.

One of the easiest ways to save money on your food budget is to make a meal plan based on sale items. If the store is giving away chicken breasts at close to its cost, then load up on chicken. Eat it for a few meals and then freeze the rest. This is a much better choice than making a meal plan and then buying the ingredients, no matter what they cost.

If you like saving money on dinner, then I bet you'll love saving money on stocks. This is why I'd like to present one of Canada's best real estate stocks, a company that allows you to buy property at a significant discount. Let's take a closer look.

The skinny

Morguard (TSX:MRC) does things a little differently than most Canadian real estate companies.

Led by CEO K. Rai Sahi, the firm is all about growing its portfolio. It does this by taking a unique approach and refusing to pay investors a meaningful dividend. The stock's current yield is a paltry 0.3%, and it's likely the dividend only exists, so the stock can join mutual funds that only buy dividend payers.

Sahi's investment philosophy is simple. He looks to acquire high-quality real estate at cheap prices, diversifying around North America. The portfolio includes 15.6 million square feet of retail space, 12.7 million square feet of offices, 8.1 million square feet of industrial real estate, 18,479 residential suites, and 5,836 hotel rooms. Morguard — as well as Sahi personally — will periodically make big investments in other publicly traded REITs, too.

A big part of Morguard's business these days is asset management. It manages some $5 billion worth of real estate for various institutional clients as well as for its two Morguard-branded REITs. Naturally, the parent company has a big investment in these two REITs.

The opportunity

Whether its because the company doesn't pay much of a dividend or perhaps because of the somewhat complex corporate structure, Morguard shares have persistently traded at a huge discount to the stock's net asset value.

As I type this, Morguard shares trade hands at approximately $208 each. But according to the company's just released 2019 results, the net asset value of its real estate portfolio is $314.55 per share. That's a discount of 34%.

In other words, it's the equivalent of buying a high-quality real estate portfolio for 66 cents on the dollar.

Morguard is also cheap on a price-to-earnings perspective. In 2019, the company generated $20.21 per share in normalized funds from operations, a metric real estate companies use as a substitute for net earnings. That puts shares at just a smidgen above 10 times earnings. You won't find many real estate companies cheaper on that metric, either.

This exercise also undervalues the asset management operation — a part of the business that continues to post solid growth. The value of the asset management operation isn't reflected on the balance sheet.

Morguard has posted absolutely terrific long-term results. Over the last decade, including reinvested dividends, shares are up 516.11%. That translates into a compound annual growth rate of just under 20%. Or, to put it another way, it's enough to turn a $10,000 initial investment into something worth $61,587 today.

The bottom line

For many investors — especially for those in the accumulation stage of their retirement planning — Morguard is a compelling real estate opportunity. Not only do you get shares at a significant discount, but the investment will also grow in a tax-deferred way. Unless the dividend policy changes, you'll only have to pay taxes when it's time to sell.

Ultimately, though, Morguard is a bet on K. Rai Sahi and his impressive portfolio-building tactics. If he continues to outperform, investors who get in today will be very happy with long-term results.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:MRC (Morguard Corporation)

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