1 Top Canadian REIT Yielding 4.5% to Buy to Profit From the Latest Weakness

Description

Coronavirus fears and rising concerns that slower growth in China will trigger a broad economic downturn are weighing on financial markets. The **S&P/TSX Composite Index** has lost almost 5% since the start of 2020, which, when coupled with growing uncertainty makes now the time to add quality dividend paying defensive stocks to your portfolio.

One such stock that's bucked the trend gaining 7% for the year to date is **Artis Real Estate Investment Trust** (TSX:AX.UN), which has been making significant progress when it comes to turning its business around.

The real estate investment trust (REIT) in late 2018 elected to slash its dividend by 50% and divest itself of non-core assets after years of suffering from lacklustre performances and a bloated balance sheet.

While those are normally red flags for investors, Artis has made significant progress with its strategic turnaround, which saw it placed among the best-performing Canadian REITs during 2019 gaining 18%.

There are signs that despite the latest market ructions and growing uncertainty triggered by the coronavirus, Artis will deliver further value during 2020.

Strategic turnaround

REITs typically possess defensive characteristics because they invest in real estate, an asset class that's less vulnerable to economic downturns compared to other asset classes. The sector also has relatively steep barriers to entry, endowing Artis with a wide economic moat and helping protect it from competition.

Artis is currently reconfiguring its property portfolio in order to reduce its exposure to retail real and office estate while boosting industrial properties. Management expects net operating income (NOI) from industrial assets to expand by 7% to compose 40% of its total NOI by 2021.

It is also actively bolstering its exposure to the U.S., with Artis anticipating that NOI generated by its U.S. operations will grow by 12% to be 60% of its total NOI by 20201.

That will boost Artis's earnings because demand for light industrial properties is expected to increase at a rapid clip because of the ecommerce and online shopping boom.

Furthermore, it is anticipated that the U.S. economy will experience stronger growth than Canada's with the IMF predicting that U.S. GDP will grow by 2.1% during 2020 compared to 1.8% for Canada.

Artis reported some solid numbers for 2019, including ending the year with 93% of its gross leasable area (GLA) leased, an 8% year-over- year increase in adjusted funds from operations (AFFO) and an AFFO payout ratio of a conservative 51%.

Notably, Artis continues to advance its growth initiatives by completing five new developments of industrial property during 2019, disposing of 11 properties, the proceeds of which were used to reduce mortgage debt by $225 million.

What makes Artis particularly attractive is that it's trading at a deep 25% discount to its net asset value (NAV) of $15.56 per unit, emphasizing that now is the time to buy, particularly given that its market value while rise as its earnings grow.

Artis also rewards unitholders with a regular monthly distribution yielding 4.%. With an AFFO normalized payout ratio of 56%, that distribution is very sustainable.

Foolish takeaway

Artis is a very attractive diversified REIT that's poised to rally once the global economy recovers and completes its strategic turnaround. There is plenty of upside available – and along with the juicy 4.5% yield, it makes now the time to buy.

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