Coronavirus: Are Healthcare REITs the Safest Option?

Description

It's nearly impossible to predict how corporate earnings will perform over the next few months. The coronavirus pandemic has already claimed thousands of lives, and millions more are at risk across the world. The economic damage is already palpable, with trillions of dollars wiped off global stocks in recent days.

Stocks, bonds, and even gold are not performing as people expected. Safe havens are few and far in between. However, certain companies seem to be in a much better position than the rest of the economy — specifically, healthcare real estate developers and investment trusts.

Here's a look at how the ongoing pandemic could impact healthcare companies listed in Canada.

Defensive sector

Healthcare is usually a defensive sector. People can't avoid seeking medical attention, regardless of economic conditions. That makes owning and operating hospitals, clinics, or medical facilities a robust business model. Universal healthcare and broad coverage, like we have in Canada, further support the sector during economic cycles.

However, the coronavirus pandemic isn't a traditional economic event. It's more of a natural calamity with the horrifying potential for exponential growth. That means the demand for medical attention could be a lot higher over the next few months.

Meanwhile, the Bank of Canada has cut interest rates, which has reduced the carrying costs of owning property. This means healthcare property is particularly well placed during this ongoing crisis and could serve as a safe haven for investors who are trying to protect their wealth.

NorthWest

NorthWest Healthcare Properties REIT (TSX:NWH.UN) is probably the only pure-play opportunity in this sector. The trust owns and manages hospitals and healthcare facilities not only in Canada but in five other developed countries as well.

In its most recent filing, the company declared 97.3% occupancy for its properties and an average lease term of 14 years. That means most of the company's units are occupied by tenants who and recurring cash flows are predictable for the next 14 years. Stable and robust cash flows allow the company to offer a 7.5% dividend yield.

The trust also declared a 7% jump in the value of its underlying net assets last year. The net asset value per unit was $13.17 as of December 31, 2019. Assuming the properties have retained their value, the stock is currently trading at a 28.6% discount to net value. In other words, one of the safest stocks on the Toronto Stock Exchange is currently undervalued.

However, there is one concern: debt. NorthWest reported long-term liabilities at $2.99 billion, which is 44% higher than the value of shareholder equity. That adds a little risk to the company's profile; however, a heavy debt burden isn't unusual for a real estate company.

Bottom line

The economic damage of the coronavirus pandemic is far from certain. The market crash could have more room to plunge in the coming weeks. However, investors could consider healthcare-related properties a safe haven during this crisis.

Healthcare REITs, like NorthWest, have predictable cash flows, robust balance sheets, and long-term tenancy contracts. Those factors could help shareholders protect their wealth during this market crash.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

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

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