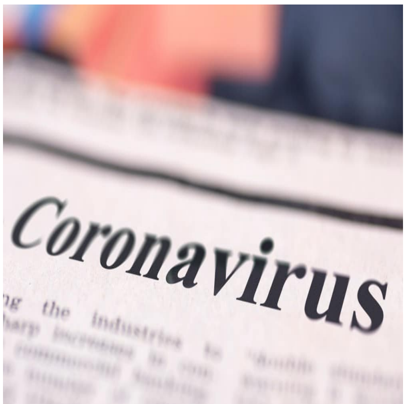

Ignore the Fear: Buy This REIT Yielding 9% to Profit From a 2nd-Half 2020 Rally

Description

Coronavirus fears have engulfed global stock markets. The **Dow Jones Industrial** has fallen to its lowest level in three years to be down by 30% since the start of 2020. The TSX is now trading at its lowest level in almost a decade after the **S&P/TSX Composite** lost 29%.

While there is worse to come for stock markets because the fallout from the coronavirus has yet to be quantified, there is an opportunity to acquire quality dividend-paying stocks, which will rebound once the outlook improves.

One such stock is **WPT Real Estate Investment Trust** (TSX:WIR.U), which has lost a whopping 42% over the last month, making now the time to buy. After that substantial decline, it has a very juicy yield of 9%. While there is most certainly short-term pain ahead, WPT will rally strongly once coronavirus fears wane.

Solid fundamentals

WPT owns a portfolio of U.S. light industrial real estate. Its top 10 tenants include major corporations such as **Amazon.com**.

WPT finished 2019 with some solid numbers. WPT had an occupancy rate of 99% and an average lease term of 4.9 years, highlighting the security of its earnings. The REIT also possesses a solid balance sheet, indicating that it can weather the current crisis. WPT ended 2019 with debt to gross book value of 42.3%, an interest coverage ratio of 3.1 times, and debt of eight times adjusted EBITDA.

The REIT's book value per unit also increased by 8% year over year to $13.31. After the latest drop in value, WPT is trading at a deep 66% discount to that book value per unit. That underscores why now is the time to buy WPT. Its attractiveness is further underscored by its regular monthly distribution, which is yielding a very juicy 9% after WPT's latest drop in value.

Nonetheless, with a payout ratio of 99% of adjusted funds from operations (AFFO), there is the likelihood that management will elect to cut the distribution in response to the latest crisis. A deep recession would have a sharp impact on earnings, and such a high payout ratio indicates that a cut would be the best option to shore up cash flow and WPT's balance sheet.

Positive long-term outlook

Once coronavirus fears subside and the full economic impact can be quantified, WPT's stock will rebound strongly. This is because the demand for light industrial real estate is outstripping supply, leading to higher rentals and asset values. That substantial growth in demand can be attributed to the rapid uptake of online shopping, which has triggered an apocalypse among traditional retailers.

While internet retailers don't require brick-and-mortar stores, they require large logistic operations to support inventory, packaging, and delivery requirements.

A lack of investment in industrial real estate over the last two decades, because it was an unpopular investment, coupled with rising demand, has created an ever-expanding shortage of appropriate properties. As the popularity of online shopping grows, that demand will increase further, causing prices and rents to rise.

Despite the measures put in place to control the spread of coronavirus, demand for e-commerce will be firm, meaning that the impact on WPT will not be as severe as it is for shopping mall REITs. Latest stimulus measures, including cutting interest rates, will also assist WPT, because it operates in a capital-intensive industry, which it had funded through debt. Lower rates reduce the cost of finance, thereby boosting profitability and earnings.

Looking ahead

The immediate outlook remains poor, especially with it expected that the number of coronavirus cases in the U.S. will rise. As discussed, WPT possesses solid fundamentals, which means it is more than capable of surviving the current conflagration.

Once coronavirus fears wane and the economic outlook is clearer, I anticipate that WPT's stock will rebound strongly. The fact that WPT is trading at a such deep discount to is book value makes now the time to buy.

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Date
2025/07/21
Date Created
2020/03/23
Author
mattdsmith