Yield Alert: This REIT Pays a 12% Dividend

Description

I continue to be amazed at the carnage impacting the Canadian REIT sector. I would have never predicted such a huge impact so quickly.

Essentially, the average REIT has taken a 50% haircut in just a few weeks. Lower-quality REITs have sold off even more as investors move their cash from risky assets to safe havens. Even residential REITs are feeling the heat, a part of the sector that is normally pretty stable. After all, people will always need somewhere to live.

I know it looks rough out there, but investors must calm their fears and start putting cash to work in the sector. The average REIT is priced as though bankruptcy is a strong possibility — something I think can be avoided with a combination of stimulus packages, rational behaviour by lenders, and a shorter-than-expected shutdown period.

In other words, it's time to buy the dip and collect some massive dividend yields. Even if the payout gets suspended for a few months, it'll promptly return to normal as the economy recovers.

Let's take a look at one such REIT, a company that pays a 12% dividend. The payout looks to be sustainable, too — even in today's topsy-turvy world.

The skinny

Northwest Healthcare Properties REIT (TSX:NWH.UN) owns medical real estate around the world. Assets include medical office buildings in Canada and Europe, hospitals in Brazil, and a smattering of assets in Australia and New Zealand, primarily hospitals and seniors living complexes. Finally, it has a property management portfolio — assets it manages for institutional money.

These are solid assets that deliver plenty of dependable income. In fact, the company just released its full-year 2019 results, and the numbers were good. Thanks to a few acquisitions, revenue was up a little more than 3%. Adjusted funds from operations came in at $0.92 per share before factoring in acquisition costs. Portfolio occupancy increased to 97.3% while the average lease term increased to approximately 14 years.

Unlike other kinds of REITs — especially retail REITs — Northwest doesn't face the risk of tenants not being able to afford rents. If projections are correct, its hospitals will soon be overrun with coronavirus patients. And other parts of the medical sector are humming along nicely, so I don't see where the risk of rent arrears is a big deal for this stock.

And yet, shares are down some 50% in just the last few weeks alone. Such a move doesn't make sense to me, so it looks to be a good buying opportunity.

The opportunity

Let's talk valuation for a second here. You won't believe how cheap Northwest Healthcare REIT has gotten.

Remember, the company generated $0.92 per share in normalized adjusted funds from operations (AFFO) in 2019. Shares currently trade hands for $6.65 each. That puts the stock at a price to AFFO at approximately seven times. There's no denying it. That's ridiculously cheap.

The REIT is also cheap on a price-to-book value basis. Net asset value is $13.17 per unit, putting the stock at about half net asset value today. Northwest owns hospitals and other medical infrastructure. There's no way the value of those assets has fallen by 50%.

And finally, the stock offers a 12% dividend yield today with a trailing payout in the 90% range. That might be a little high, but I think the company can afford the dividend. Especially if the economy bounces back faster than the market expects.

The bottom line on Northwest Healthcare Properties REIT

There are dozens of cheap REITs on the Toronto Stock Exchange. It's the perfect time to add a few to your portfolio.

Not only is Northwest Healthcare Properties REIT one of the cheapest, but it also offers a succulent dividend yield. When markets recover — and they will — you'll regret not loading up on this one. It offers a great combination of dividend yield and capital gains potential.

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