Market Crash 2020: Ignore the Fear. Buy This REIT Yielding 11% Today

Description

Stocks are whipsawing wildly on a mix of good and bad news. Fears that the full impact of the coronavirus is yet to be felt has caused stocks to fall sharply over the last month. The leading **Dow Jones Industrial Average** has lost a whopping 26% and the **S&P/TSX Composite** is 23% lower.

Many individual stocks have experienced even greater loss, despite many possessing solid fundamentals. Some of the worst affected are real estate investment trusts (REITs). **Northwest Healthcare Properties** (TSX:NWH.UN) has plummeted 33% because of fears that the economy has fallen into recession. This has created an opportunity to acquire a quality REIT at a deep discount to its fair value, making now the time to buy.

Solid fundamentals

Northwest Healthcare is an ideal defensive stock to own during economic slumps and market downturns. It has a wide, almost insurmountable economic moat, which protects its earnings. This is because Northwest Healthcare invests in medical real estate and infrastructure.

The industry not only has steep barriers to entry because of regulatory and capital requirements, but demand for healthcare is inelastic. Even during times of economic distress and recession, the consumption of healthcare and medical services remains steady. That, along with the wide moat, shields Northwest Healthcare's earnings from downturns.

Northwest Healthcare's earnings are also highly contracted. That and the occupancy rate of 97% and weighted average lease expiry of 13.8 years add a greater degree of certainty to its earnings.

Those attributes make Northwest Healthcare an ideal defensive stock, particularly when it pays a regular monthly distribution. After its stock declined by 37% for the year to date, Northwest Healthcare distribution is yielding a monster double-digit 11%.

While the payment appears sustainable, management may seize upon the opportunity to cut the distribution to preserve cash flow and Northwest Healthcare's balance sheet.

Nevertheless, even a 50% distribution cut would leave a yield of over 5%, making it an attractive source of regular income during troubled times.

Recent stimulus measures, including interest rate cuts bode well for REITs. Earlier this month, Bank of Canada shaved 0.5% of the headline rate, reducing it to 0.75%, which bodes well for capital-intensive industries such as REITs. It will provide relief by reducing financing costs.

Northwest Healthcare, despite spending big on acquisitions during 2019, finished the year with a solid balance sheet. This is evident from its debt to gross book value of 49.6% and an interest coverage ratio of 2.57. That endows Northwest Healthcare with considerable financial flexibility, allowing it to weather the current storm engulfing the global economy is good shape.

Strong growth

Now is the time to buy Northwest Healthcare. It is trading at a deep 51% discount to its net asset value (NAV) of $13.17 per unit. This illustrates that there are considerable capital gains ahead for investors who buy today.

Management's confidence is highlighted by Northwest Healthcare's recently announced unit buyback. The REIT plans to acquire up to 15,078,071 of its units over the next year.

In order to prevent the dilution of existing unitholders, Northwest Healthcare has suspended its distribution-reinvestment plan.

Looking ahead

Northwest Healthcare's mix of defensive characteristics and solid growth potential makes it the ideal stock to hold when financial markets are highly volatile. The REIT will rebound once coronavirus fears subside and the full impact on the economy is understood. While investors wait for Northwest Healthcare to rally, they will be rewarded by Northwest Healthcare's distribution yielding a juicy 11%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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