Have $1,000? Then Buy This Top REIT That's on Sale and Yielding 8.5% Today

Description

The rapid spread of the coronavirus is sharply impacting the global economy and financial markets. The leading **Dow Jones Industrial Average** has lost 11% since the start of March 2020, while the **S&P/TSX Composite** moved lower, shedding 16%.

Real estate investment trusts (REITs) have been particularly harshly handled by the market. This is because it is a capital-intensive sector dependent on a solid economy to generate earnings. Many REITs are heavily indebted and facing significant earnings hits over coming months. That could force them to slash distributions to shore up cash flows and balance sheets. One REIT that is ideally positioned to weather the crisis and deliver long-term value is **Northwest Healthcare Properties** (TSX:NWH.UN). It has lost 21% since the start of March over fears that its business will take a tremendous earnings hit because of the coronavirus pandemic.

Trading at a discount

While the fear surrounding the economic outlook and stocks is palpable, in the case of Northwest Healthcare, it appears substantially overblown. Such a sharp decline has created an opportunity to acquire one of Canada's top REITs at a very attractive price.

This is apparent when it is considered that Northwest Healthcare is trading at a deep 38% discount to its net asset value (NAV) of $13.17 per unit. That underscores the considerable capital gains ahead when the economy recovers and Northwest Healthcare's stock rallies.

Solid fundamentals

The REIT also possesses solid fundamentals. Northwest Healthcare finished 2019 with a robust balance sheet, which is evident from its low debt to gross book value of 49.6%. Net debt at the end of 2019 was nine times Northwest Healthcare's adjusted EBITDA. The REIT expects that to fall to around eight times by the end of second quarter 2020, further boding well for its ability to survive a deep coronavirus-induced recession. It also had $192 million in cash and cash equivalents, giving enough financial flexibility to survive the looming economic slump.

Northwest Healthcare's sale of $697 million of assets in Australia and Europe is well advanced. Once complete, it anticipates netting $237 million, which will further boost liquidity.

The REIT has also taken measures to adjust its operations and strengthen its financial position. Northwest Healthcare repaid $316 million, or 77%, of its 2020 debt maturities, totaling $410 million. It anticipates refinancing the remaining $94 million of mortgages. Northwest Healthcare also secured a two-year extension on a $199 million Australian secured credit facility.

Those measures will considerably bolster Northwest Healthcare's ability to survive the economic fallout triggered by the coronavirus pandemic.

Defensive stock

The REIT also possesses strong defensive characteristics, further buttressing its ability to survive the current crisis in good shape. These include the inelastic demand for healthcare, which will ensure there is robust demand for Northwest Healthcare's properties, even during a recession. A wide, almost insurmountable moat protects the REIT from competition.

The contracted nature of Northwest Healthcare's revenues and high 2019 occupancy rate of 97.3% will further protect its earnings. That means the REIT may not experience the substantial earnings hit expected by some pundits.

Foolish takeaway

Northwest Healthcare has a long history of delivering value. It will emerge from the coronavirus pandemic and ensuing recession in solid shape. Northwest Healthcare's stock will rally as coronavirus fears wane. The REIT is rewarding unitholders with a regular distribution yielding a very juicy 8.5%. However, it must be acknowledged that if the economic fallout is more severe than anticipated, the distribution could be cut to preserve vital funds flow.

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