Revealed: Why SmartCentres REIT (TSX:SRU.UN) Is Still My Top REIT Pick

Description

Today's market action has created a great opportunity for investors to purchase great REITs like **SmartCentres REIT** (TSX:SRU.UN) at a fantastic price.

Many investors will disagree with my thesis, saying that there's simply too much uncertainty out there to purchase a risky retail REIT. After all, many tenants couldn't open back up even if they wanted to. Many small businesses are only a few weeks away from being forced to close their businesses for good. And although we've made progress against COVID-19, we still have no idea when the economy will reopen.

I understand why investors might be bearish on a retail REIT in this new world. This is pretty devastating for the sector, and SmartCentres REIT certainly isn't immune.

But on the other hand, investors are discounting what SmartCentres will be worth when this is all over, and just how much it'll be impacted by today's chaos.

Let's take a closer look at SmartCentres REIT and reveal why it's still my top pick in the sector.

Excellent properties

Led by Executive Chairman Mitchell Goldhar, SmartCentres has been amassing an enviable portfolio of retail space in ideal locations with a focus on the largest markets in the country.

Let's start with the **Walmart** exposure. Most of the company's retail locations are either anchored or shadow anchored by a Walmart location. Walmart accounts for about 25% of the company's total rents, and business at the world's largest retailer is booming right now. These anchor stores are excellent assets even when the economy is doing well, since they drive traffic to smaller retailers.

In total, the portfolio consists of more than 34 million square feet of space today, with potential to add a whole lot more. SmartCentres REIT has a long-term plan to develop more than 250 different projects, which will combine to add nearly 30 million more square feet to the portfolio.

The company isn't just limiting itself to retail developments, either. It has various mixed-use developments planned, like an ambitious project in Vaughan Ontario which will consist of retail space, office towers, and even condos by the time its finished. SmartCentres REIT is also planning further expansions into self-storage and seniors housing facilities with joint venture partners.

SmartCentres has been preparing its balance sheet for this expansion plan for years now, which ensures it has much lower debt levels than most of its peers. This reasonable leverage will help protect it if the economy doesn't bounce back right away.

Valuation

SmartCentres REIT doesn't just own great assets. It's also trading at a rock-bottom price.

Let's start with the trailing valuation. I know that 2020's earnings won't be the same as 2019's, but I'm more confident of using last year's earnings as a proxy for normalized earnings. In 2019, SmartCentres earned $2.15 per share in funds from operations.

As I type this, SmartCentres shares are trading at approximately $19 each. That puts the price-to-funds from operations ratio comfortably under 10 times.

Shares are also dirt cheap compared to the REIT's net asset value. At the end of 2019, the company was worth more than $30 per share. That value has gone down some — at least temporarily — but I'm confident net asset value will return to the $30 per share range soon enough.

SmartCentres REIT is also a great value based on its dividend yield. The current payout offers a 9.1% yield. The dividend should be safe, too.

The bottom line on SmartCentres REIT

Perhaps the biggest reason investors should be bullish on SmartCentres REIT is Mitch Goldhar's behavior during this downturn. Goldhar was buying aggressively all the way down, picking up some $9 million worth of shares to go with his already large position in the company.

It's obvious the that Goldhar knows the business better than I do. Besides, he's one of Canada's richest billionaires. If he's buying, that has to be a great sign.

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