1 Top Canadian REIT to Beat Coronavirus

Description

Canadian REITs have been hit hard by the coronavirus pandemic, particularly those which own retail and hotel real estate. However, this shouldn't deter you from adding REITs to your portfolio with many Canadian REITs now trading at attractive valuations. One which stands out is **NorthWest Healthcare Properties** (TSX:NWH.UN). The REIT has seen its stock plunge 16% since the start of 2020.

This has created an attractive opportunity for investors seeking to boost capital returns and income.

Quality REIT

NorthWest Healthcare owns a globally diversified portfolio of 183 medical properties in Canada, Brazil, Australia and Western Europe. Despite the impact of the coronavirus pandemic, the company reported some solid first quarter 2020 numbers.

These included a 5% year-over-year increase in net operating income (NOI) and adjusted funds from operations (AFFO). Net income soared to $116 million compared to a $54 million net loss for the equivalent period in 2019.

Notably, Northwest Healthcare finished the first quarter with a 97% occupancy rate and weighed average lease to expiry of 14 years.

That highlights the quality — and hence demand — for the REIT's properties while boding well for earnings.

Solid financial position

NorthWest Healthcare finished the first quarter in a healthy financial position. It had $96 million of cash on its balance sheet and $2.7 billion of debt. That level of debt is manageable, as indicated by Northwest Healthcare's debt to gross book value of 49.5%.

Along with NorthWest Healthcare bolstering its liquidity through strategic asset sales, which will generate $145 million, it is well positioned to survive the pandemic in good shape.

Nevertheless, the pandemic will impact NorthWest Healthcare's second-quarter results.

For the month of May, 84% of gross rent payments had been met but rent deferral agreements were being conducted with tenants.

Attractively valued REIT with solid growth ahead

NorthWest Healthcare, after seeing its stock plunge sharply because of the coronavirus pandemic, is trading at a deep 25% discount to its normalized net asset value (NAV) of $12.50 per unit, underscoring the considerable capital gains ahead and why now is the time to buy NorthWest Healthcare.

According to investment bank **Goldman Sachs** U.S. hedge funds are boosting their exposure to healthcare stocks to record levels. This is in response to the profits that can be made by many hedge funds that have made poor investment decisions over the last decade.

The pandemic has substantially bolstered demand for healthcare, medications and medical services.

It has also highlighted many of the weaknesses in many countries, which will likely lead to greater depending on healthcare infrastructure. Both will serve as powerful tailwinds for Northwest Healthcare.

Aging populations in many developed nations where NorthWest Healthcare operates including Canada, Australia, Germany and the U.K. will also propel earnings higher over the long term.

Notably, demand for healthcare and medical services is relatively inelastic making Northwest Healthcare's earnings resistant to the economic fallout from the coronavirus and economic slumps.

Foolish takeaway

NorthWest Healthcare is a best-in-class investment among Canadian REITs. It will emerge from the current crisis in solid shape and go onto to deliver significant value. While waiting for the company's stock to appreciate, you'll be rewarded by its monthly distribution yielding 8%.

While the payment is under pressure because of weaker earnings, NorthWest Healthcare's payout ratio of AFFO has been gradually falling to be 100% on a diluted basis.

This indicates that unless there is a sharp impact on Northwest Healthcare's earnings, it will maintain the distribution.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

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Date
2025/06/28
Date Created
2020/05/25
Author
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