This Real Estate Stock Might Be the Best Deal in Canada

Description

Real estate has gotten absolutely hammered lately, and it's easy to see why.

Bears say various parts of the sector will never go back to normal again. On the retail side — especially enclosed malls — the sector will be hit by a wave of tenant bankruptcies and permanently decreased traffic. Offices won't be the same either, with many companies planning to embrace working from home in the future. Heck, even residential real estate might be impacted if this recession lasts longer than expected.

But I'd hardly argue the sector is dead. As the economy starts to reopen and folks get more comfortable going out in public, retail real estate will rebound. Many people are looking forward to getting back to the office, too. I predict things will bounce back sharply, which is excellent news for patient investors long the sector. We just don't know when it'll happen.

While we wait for the sector to rebound, investors can start buying up dirt-cheap real estate stocks. Let's take a closer look at one such company, an stock that could easily double from here.

The skinny

Morguard (TSX:MRC) has always traded at a significant bargain to the value of its parts. That discount has never been wider than it is today.

Morguard is the owner of 206 different real estate properties across North America, including residential, retail, office, industrial, and hotel assets. It's also an asset manager for various real estate investors, including the publicly traded Morguard-branded REITs. Together, it owns or manages more than $20 billion worth of real estate.

Led by Chairman K. Rai Sahi, Morguard takes a long-term approach to its empire. The company triesto never sell assets, choosing instead to hold as long as possible. It pays only a token dividend, amove designed to allow it to reinvest cash flows back into new property. This has the added bonus ofallowing major shareholders — like Sahi himself — to successfully avoid paying taxes.

Canada’s best real estate bargain?

Despite having all this going for it, Morguard has been hit hard by COVID-19 and its impact on the real estate sector. The stock has always traded at a healthy discount to its net asset value, but today’s bargain is unprecedented. As I type this, Morguard shares trade at $116 each. The net asset value was $314.55 per share at the end of 2019. That puts shares at just over 37% of net asset value.

Normally, Morguard trades between 60% and 70% of its net asset value. As you can see, that’s quite a discount.

Shares are also dirt cheap from an earnings perspective. In 2019, Morguard generated just over $22 per share in funds from operations. That puts us at less than six times trailing funds from operations today. Morguard’s traditional valuation is closer to 10-12 times funds from operations.

Morguard also has an excellent balance sheet with a debt-to-assets ratio of approximately 50%. That’ll give it the strength needed to make it through this storm unscathed. Heck, I wouldn’t be surprised if we see the company buying up bargain properties desperate owners want to unload.

The bottom line

It looks pretty uncertain for the real estate sector, which is why Morguard shares are so depressed today.

This represents a great time for long-term investors to load up on shares. Real estate will bounce back, and Morguard should bounce back with it. I can easily see this stock doubling over the next two to three years.

Just be warned: shares aren’t the most liquid out there. You might have to be a little bit patient to add this company to your portfolio.

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1. Editor's Choice

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nelsonpsmith