Attention Investors: You Won’t Want to Miss This Compelling Short-Term Opportunity

Description

Here at Motley Fool Canada, we’re usually all about long-term investing options. We advocate a buy-and-hold approach, emphasizing the advantages of loading up on an excellent company and holding shares for decades.

A long-term focus doesn’t just lead to excellent returns. It can also help minimize taxes as well. After all, you don’t owe any taxes on an investment until you sell. Many stocks pay dividends, but those are taxed at an advantageous rate.

Despite this long-term focus, every now and again I stumble upon a short-term opportunity that’s so compelling I must talk about it. The opportunity I’m going to talk about today might not double your money, but it represents an excellent return over a couple of months, all while offering very little downside potential. Let’s take a closer look.

The skinny

Northview Property REIT (TSX:NVU.UN) quietly grew into one of Canada’s top residential landlords. The company owns more than 30,000 apartment suites all across Canada as well as a smattering of commercial property. Investors liked the company’s Toronto exposure, but I was always more interested in its northern assets, properties in remote towns without a whole lot of competition.

I was a long-term shareholder, content to continue holding and collecting the dividend, which was a yield of approximately 6% when I purchased.

And then, back in February, I was treated to a nice surprise. One of Northview’s major shareholders, Starlight Group, announced it was acquiring the company for $36.25 per share in a friendly deal. Shares immediately shot up to slightly more than $36.25 since Northview had negotiated a clause to shop for a better offer, and I sold.

Then COVID-19 happened, and investors started to panic.

Despite Starlight (and co-acquirer Kingsett Capital) publicly saying the deal was a go, investors started to speculate the uncertainty caused by the virus would throw a wrench into those plans. Northview shares plunged, quickly falling to the $27 level, as investors panicked and got whatever they could for their shares.

The opportunity

The plunge was short-lived. Northview shares quickly recovered to the $30 range before climbing steadily higher. As I type this, shares trade at $34.75 each.

Meanwhile, Northview's suitors have advanced forward on the deal and continued to say they intend on closing as scheduled. Northview's shareholders voted overwhelmingly to approve the transaction, too. There are just a few more legal hoops to jump through and then the deal will close, with both parties expecting that to happen sometime in the third quarter.

As it stands today, investors will make a $1.50-per-share capital gain if they buy today and sell at the acquisition price. That works out to a 4.3% gain, which doesn't seem to be very exciting at first glance.

It gets better if we look at it in a more accurate way. For the sake of easy math, let's assume the deal takes three months to close. That would give us an annualized gain of more than 17%. That's a little more exciting.

But wait. There's more. Northview is still paying dividends of $0.1358 per share on a monthly basis. If Northview pays two additional dividends before the deal closes, that increases the total return to 5.2%. It also increases the annualized return to 20.7%.

Compare that to a normal fixed-income investment, and the results aren't even close. Short-term GICs and government bonds barely pay 1% interest, and that's an annualized rate. Yes, there's risk this deal doesn't work out, but it's minimal at best. This is a solid deal that should be completed without incident.

The bottom line on this short-term opportunity

Normally, I'm all about long-term opportunities in excellent stocks as much as anyone. But the Northview Property REIT situation is too interesting to not talk about. Thanks to market volatility, a generous return is waiting there for short-term investors. It might be the perfect spot to park some excess cash for a few months.

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Date
2025/08/13
Date Created
2020/06/04
Author
nelsonpsmith