Buy Alert: This Real Estate Stock Just Surged 80%

Description

Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY) entered a world of pain when the coronavirus pandemic began. Despite delivering positive gains from 2013 to 2019, the stock price abruptly slid 50% at the start of 2020.

Recent weeks have brought relief. On April 3, shares were priced at $10.30. Last week, they hit $18.60 — an 80% rise in roughly two months.

Still, Brookfield stock remains 40% off its pre-pandemic highs.

Is the recent surge a sign of things to come?

Get excited

Exactly one week before BPY stock nearly doubled in price, I issued an urgent buy alert.

“The next few months will be difficult, but as conditions stabilize, expect the current valuation discount to narrow quickly,” I wrote. “If you want to take advantage of the market turmoil by picking up deeply discounted real estate stocks, Brookfield Property should top your buy list.”

What exactly was I so bullish about?

The COVID-19 crisis will undoubtedly take a toll on Brookfield stock. Roughly 80% of the company’s portfolio consists of office and retail properties. Businesses have transitioned most of their workforces away from physical office space. Most retailers, meanwhile, are shut down completely.

While this company is taking a bit hit, that doesn’t mean the share price is going to zero. The reality is somewhere in between. When I saw shares trading at 30% book value, I knew the market had gone too far.

“Despite owning a high-quality portfolio of properties, this real estate stock is trading at an insane discount to its intrinsic value," I concluded. "The COVID-19 pandemic likely reduced the value of its holdings, but there's no way the portfolio is worth two-thirds less."

Buy this stock *now*?

Where does Brookfield's valuation stand after the recent surge in share price? After a small dip late last week, BPY trades at 40% of its stated book value. That's not as good of a deal as last month, but it still represents a clear bargain for buy-and-hold investors.

The trick here is to determine whether Brookfield's assets are permanently impaired. That may be the case if, for example, the company doesn't have enough liquidity to outlast the current crisis.

In this example, it would need to sell assets at fire-sale prices to avoid bankruptcy. What does the company say about this?

"We expect this will be more than sufficient to weather a protracted downturn and we continue to enjoy the sponsorship of Brookfield Asset Management, who is in excellent financial condition should we ever require assistance," stresses management.

"While we expect some short-term impact on this business, particularly with respect to new leasing and renewals in 2020, we are well-protected against a downturn."

With $6 billion in liquidity, Brookfield stock will survive this bear market.

The next question is whether its assets will ever be worth their stated book value. We have some clues based on pre-pandemic transactions.

Before COVID-19 took hold, Brookfield was selling assets for *more* than their book values. Two properties, for example, had $1 billion in unrealized gains! While this data doesn't verify its entire portfolio, it likely suggests that the company can achieve book value selling prices once conditions normalize.

The only question now is *timing*. When exactly will conditions normalize? That could happen in months, but it will likely take years.

Patient investors willing to buy the stock now can secure a 60% discount.

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