



Last Chance to Buy This Big Dividend Stock at a Steep Discount

Description

The word is out. **Brookfield Property Partners** ([TSX:BPY.UN](https://www.bny.com/en/real-estate/brookfield-property-partners))(NASDAQ:BPY) is maintaining its quarterly dividend. Today, it offers a whopping yield of 11.1%.

The company bought back shares at an average price of US\$8.45 per unit in Q2 — a ridiculously huge discount. The stock has soared 41% already.

You haven't missed the boat, though.

Combined with the shares bought in Q1, BPY actually paid US\$11.90 per unit for the buyback in the first half of the year (H1). Moreover, the company is in the middle of a substantial issuer bid that could see it purchase up to an additional US\$890 million of stock at US\$12 per unit from the public market. That'd bring its average price to US\$11.99 per unit for its 2020 buybacks so far.

Where's the stock trading now? Just two cents below.

Here are my two cents. The big dividend stock is still trading at a massive discount. That's why the company is aggressively buying back shares at current levels.

Why is the big dividend stock so cheap?

At US\$11.97 per unit, Brookfield Property trades at about 44% of its end-of-Q2 book value. In other words, it trades at a discount of roughly 56%.

To be fair, though, as shown in the chart below, the stock often trades at a meaningful discount to its book value.



BPY Price to Book Value data by YCharts. Price to book history of BPY stock.

Assuming a fair valuation of 60% book value, the stock should be worth about US\$16.20 per unit today. This implies a discount of about 26% or an upside potential of 35%.

However, as the macro environment improves, other than getting a valuation expansion, BPY's book value will also increase, which will drive even greater price appreciation.

As BPY's Q2 results illustrated, this year, its earnings will be shaved off meaningfully from the forced closure of its retail and hospitality assets. Management expects Q2 to be the hardest hit and improvement to take place in the latter half of the year — barring any renewed closures, of course.

In H1, the company's earnings per share were 33% lower against H1 2019.

Improvements

Thankfully, things can improve in H2. First, roughly 15,000 of BPY's Core Retail tenants have restarted their businesses (representing more than 85% of this portfolio).

Secondly, management pointed out that retailers saw higher sales conversion rates in their stores due to less browsing and more buying, as customers aimed to grab and go quickly. It also noted the success of retailers that took advantage of curbside pickups and ship-from-store programs to gain market share.

Thirdly, [Brookfield Property](#) is also being creative by using some of its parking lots for drive-in theaters or outdoor dining. As well, it partnered with Fit:Match to have kiosks in certain malls, allowing people to

receive a 3D body scan to find their sizes at different retailers and shop for clothes without having to try them on.

Furthermore, management believes “disposition activity will resume in the latter half of the year and moving into 2021” for its opportunistic portfolio. Capital recycling is a key part of BPY’s strategy, which increases profits through the cycle and improves BPY’s payout ratio.

The Foolish takeaway

Brookfield Property’s payout ratio in H1 was 130%. Thankfully, things should improve from here. What’s more, at the end of H1, BPY had US\$6 billion of liquidity. Its US\$1.5 billion of cash on hand alone can help the company pay more than one year of dividends.

The company is willing to buy loads of shares at about US\$12, the ultimate proof that the stock is still very cheap. [Grab a piece](#) of this big dividend stock now before it runs away from you!

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