COVID-19 Crisis: This 9%-Yield REIT Could Soar in a Post-Pandemic World

Description

As Foolish investors, we strive to invest in severely undervalued businesses to maximize our risk-adjusted returns. Every once in a while, Mr. Market becomes inefficient at pricing stocks within their intrinsic value ranges. In such instances, the macro picture is clouded, and there's bound to be tonnes of volatility.

As you may know, most investors are no fans of volatility. But for individual stock pickers, volatility can be a friend, not a foe, as the odds of bagging a stock at a wide discount to its intrinsic value are that much higher.

Going against the grain doesn't have to be dangerous

Right now, it seems as though investors would rather wait for the advent of a safe and working COVID-19 vaccine before placing bets on some of the hardest-hit names amid this crisis. Retail REIT **SmartCentres REIT** (TSX:SRU.UN) is down considerably from its pre-pandemic heights and has been stuck in limbo for months following the initial February-March sell-off, having not participated to the full extent in the market's broader tech-drive relief rally. The REIT currently sports a 9.3% distribution yield that I believe is far safer than most would expect given the REIT's demonstrated resilience in the first wave of COVID-19 shutdowns.

It's hard-hit shares like SmartCentres that could be in a position to soar once the vaccine lands up until the pandemic ends, and the novel coronavirus is eliminated from most geographies around the world. In the face of a second COVID-19 lockdown, though, SmartCentres REIT and its peers are going to remain absurdly volatile until investors can begin to see the light at the end of the tunnel.

Looking beyond the pandemic into late 2021 and beyond

If you're an investor who's able to see beyond the profound headwinds to the long-term fundamentals, there are substantial rewards to be had for going against the grain with various COVID-hit names at this juncture. What entices me about SmartCentres is the long-term growth trajectory that will see it move away from retail towards mixed-use properties (residential and retail). The long-term strategy will unlock immense value.

However, in the meantime, Smart remains a retail-centric firm that will feel the pressure amid the pandemic, even though a vast majority of its tenant base comprises quality tenants that are unlikely to miss a month's rent in a worsening of this crisis. Add the fact that Smart's **Wal-Mart** anchor is a pandemic-resilient essential business that will keep foot traffic flowing in through this crisis, and it becomes more apparent that SmartCentres REIT is an opportunity to lock in a safe 9.3% yield alongside a shot at outsized gains once we exit this pandemic.

Foolish takeaway on SmartCentres REIT

Yes, retail stinks, but with some of the highest-quality tenants out there, Smart is less likely to face permanent damage to its business relative to most other retail (or office) REITs that may have to axe their distributions to deal with eroding funds from operations.

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