Could This 8% Yielder Be the Most Undervalued REIT on the TSX?

Description

The **TSX Index** hasn't looked back since recovering from the depths of the 2020 February-March stock market crash. While it seems like all the best bargains are gone, I'd urge investors to consider looking to areas of the market that remain a country mile away from their pre-pandemic, all-time highs.

Although we have a handful of safe and effective COVID-19 vaccines, with more likely on the way, we're not out of the woods yet with this pandemic. The more contagious mutated variants of COVID-19 are a real threat. The Canadian vaccine rollout could also take longer than expected due to logistical challenges, and many people may be unwilling to have the vaccine administered once given a chance.

These profound uncertainties weigh most heavily on the industries decimated by the pandemic, most notably office and retail REITs, which remain a country mile away from their all-time highs, even after November's vaccine-driven rally.

Don't discount the pandemic risks

While it's great to be hopeful and optimistic that the pandemic will end this year, it's the job of an investor to consider the broader range of potential outcomes, including worst-case scenarios. That's why I'm still an advocate of the barbell portfolio, which manages risks brought forth by COVID-19.

When it comes to the REITs, it certainly seems as though investors think this pandemic could drag on for longer than expected, even with vaccines rolling out across the nation. In case we are due to see this horrific pandemic drag into 2022, it'd be wise to pay careful attention to the financial health of some of the vulnerable, higher-yielding REITs to lower the odds of getting caught on the receiving end of a distribution cut.

SmartCentres REIT: A 8% yield that looks too good to pass up

Consider **SmartCentres REIT** (TSX:SRU.UN), a top REIT that I believe could be in a spot to skyrocket on the other side of this pandemic while being able to navigate through another several waves of

COVID-19 lockdowns. The retail-focused REIT houses numerous essential retailers, most notably its anchor in **Wal-Mart Stores**, a brick-and-mortar darling that's held its own through the worst of this crisis.

While Smart's distribution could be under mild pressure again if worse comes to worst and the federal government imposes harsher lockdown measures, I don't see a scenario where the REIT axes its bountiful distribution. The payout could become stretched again, but like during the worst of the first wave, I don't suspect the distribution will be stretched towards its breaking point.

Moreover, I think many investors are discounting the REIT's longer-term growth profile, which sees it expanding beyond retail real estate into mixed-use properties that I think could improve the quality of the REIT's funds from operations (FFOs) on a longer-term basis. With brilliant managers striving to find the perfect blend of retail and residential property types, I view SmartCentres REIT as a bountiful income darling that could experience above-average distribution growth over time.

In the meantime, SmartCentres is very much a retail-focused REIT, and COVID-19 remains the biggest risk. Given Smart boasts an impressive lineup of high-quality tenants, many of which are pandemic resilient, I think SRU.UN remains the best retail REIT to make it through these uncertain times.

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