TFSA Investors: This Cheap Stock Could Soar in Value

Description

SmartCentres Real Estate Investment Trust (TSX:SRU.UN) develops, leases, constructs, owns, and manages interests in shopping centres, residential rental buildings, retirement homes, office buildings, and self-storage facilities. SmartCentres has also commenced a program to develop, pre-sell, construct, and deliver high-rise condominium and townhome projects. These initiatives are intended to be developed primarily on many of SmartCentres's current portfolio of convenient locations.

The company has a price-to-earnings ratio of 28.2, price-to-book ratio of 0.79, dividend yield of 7.73%, and market capitalization of $4.04 billion. Debt is prudently used at SmartCentres, as evidenced by a debt-to-equity ratio of just 0.92. Despite challenging conditions, the company has excellent performance metrics with an operating margin of 60.98% and a return on equity of 2.76%.

From SmartCentres's inception in 2001 and prior to 2015, SmartCentres's growth was principally a result of the acquisition of completed and fully leased retail shopping centres. The company's portfolio of shopping centres focuses on value-oriented retailers and includes large, well-capitalized, and well-known national and regional retailers as well as strong neighbourhood merchants, resulting in SmartCentres continuing to experience an occupancy level of 98.1%.

The company's centres are typically located close to major highways and other major arterial roadways which, along with the anchor stores, attracting both value-oriented retailers and consumers. SmartCentres's portfolio includes an ownership interest in 150 shopping centres, one office property, six mixed-use properties, eight development properties, and three other properties with total income producing gross leasable area of approximately 34.3 million square feet, located in communities across Canada.

In addition, many of SmartCentres's retail properties are shadow-anchored by approximately 9.7 million square feet of a large retailer. In 2020, SmartCentres continued to invest in large format, unenclosed retail rental properties with strong tenant covenants, stable yields, low vacancy levels, and growth potential.

SmartCentres's executive management has significant experience in the commercial real estate market, including real estate development, acquisitions, dispositions, financing and administration, property management, construction and renovation, and marketing.

SmartCentres has utilized fixed-rate debt financing to finance property purchases. The company staggers debt maturities to reduce refinancing risk, which provides a source of additional capital when refinanced. SmartCentres develops a leasing strategy for each property that reflects the nature of the property and prevailing and forecasted economic conditions.

Much of SmartCentres's portfolio is situated within close proximity to the vast majority of the Canadian population. Hence, redevelopments assist SmartCentres in maintaining high occupancy levels and creating new sources of income. The company's strategy is to identify potential property acquisitions using investment criteria that focuses primarily on return on equity, security of cash flow, potential for capital appreciation, and the potential to increase value by more efficient management of the assets being acquired.

The company's property portfolio consisted of 168 properties located in all of the provinces of Canada. SmartCentres explores acquisition opportunities as they arise, but management only pursues acquisitions that are accretive relative to the company's long-term cost of capital. Executives own large equity stakes in the company and have tremendous incentive to make decisions for the long-term benefit of the company.

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