1 of the Cheapest REITs in Canada Looks Poised to Soar

Description

REITs (real estate investment trusts) have not been spared from the recent carnage in broader markets. Rates will rise, and they could rise above levels many investors are comfortable with. Like it or not, central banks made a big mistake by being too accommodative, paving the way for scorching-hot inflation. Indeed, dismissing inflationary pressures as transitory was a bad move that could haunt markets for yet another year.

With the focus on a potential recession in late 2022, 2023, or even 2024, investors are put in a tough spot. Should they hang in and wait for volatility to settle down before getting back into their favourite stocks and REITs? Or is it better to be a buyer while most others wouldn't dream of doing such?

As the old Warren Buffett saying goes, investors should find it within them to be greedy while others are fearful. It's not easy, though. To be a buyer today is to jump into the deep end of some pretty rough waters!

Regardless, there's a lot to gain by buying stocks when it seems like all hope is lost. With REITs and other high-yielding securities, you'll get more yield than you would typically. Though recessions and other exogenous negative events could negatively impact cash flows, and, ultimately, the health of the dividend or distribution, I think that a careful analysis can help investors steer clear of firms that could see their payouts become stressed during an economic downturn.

REITs are designed with their distributions in mind. On average, they tend to have payouts that are more resilient in the face of trying times. Regardless, REIT distribution cuts happen. Just look to **H&R REIT** (TSX:HR.UN) and the fate of its payout during the 2020 stock market meltdown.

H&R REIT

First up, we have H&R REIT, which slashed its payout around two years ago. Undoubtedly, the new distribution is more sustainable, even as we slip into a downturn. The REIT had more than its fair share of office and retail exposure going into the coronavirus crisis. Offices in particular are probably never going to be the same with the rise of remote work. Though many workforces will renew their office leases, investors expecting a full recovery from pre-pandemic norms will be disappointed.

Since the worst of the crisis, H&R has made moves to become more diversified. Ridding itself of offices and spinning off Primaris properties will help H&R become better through the eyes of investors. However, it's not the significant moves management has made in the past two years that have me excited about the REIT. It's the valuation. Shares have been marked down so severely since 2020. The latest Primaris spin-off news sent shares tumbling yet again. While I think a return to 2020 lows is out of the question, I am enticed by the 2.68 times trailing earnings multiple. That's a bottom-of-the-barrel multiple that suggests a fair margin of safety in my books.

The 4.2% yield is nothing to write home about. Still, at such depressed levels, I think investors are severely discounting the calibre of the REIT's assets and the capabilities of management, as they look to turn the ship around in the post-COVID environment.

Bottom line

The macro picture is pretty ugly, but I think the negativity has become overblown, allowing brave contrarians to get a bit more (yield) per invested dollar. H&R REIT has been a turbulent ride, but shares are getting too cheap to ignore. It's nearly ridiculous how cheap shares have become in 2022. Yes, there are many moving parts, but at the end of the day, value prevails.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Investing

Date

2025/08/22
Date Created
2022/05/22
Author
joefrenette