Market Correction: 1 Oversold Dividend Stock I'd Buy in Bulk

Description

The Toronto stock market has been walking the red line, falling 14.4% after making a new high in April 2022. The correction came as the central bank began tightening monetary policies to pull back excess liquidity from fiscal stimulus. The Canadian market resisted significant dips from the Fed's first two interest rate hikes between March and May. But the 75-basis-point hike in June sent an uproar in global markets, and the TSX Composite Index fell 3.1% in a day. This selloff pushed a strong REIT into the oversold category, creating an opportunity for dividend seekers to buy in bulk and lock in a 7% yield.

The oversold dividend stock

The June market correction has put many stocks in deep red, but not all dividend stocks have hit the oversold category. One Canadian REIT that has proved its mettle in the 2009 Financial crisis and the 2020 pandemic crisis is again sailing the troubled waters.

SmartCentres REIT (TSX:SRU.UN) dipped 20% since April 20, when the market correction began. The selloff has put the REIT in the oversold category twice in two months. Its Relative Strength Index (RSI) fell below 25 on May 10 and June 16. This selloff has increased its distribution yield above 7%. The REIT is at an attractive valuation, and that won't stay long, as value investors would jump to buy the REIT and lock in a 7% annual distribution for years to come.

Why is SmartCentres REIT stock oversold?

SmartCentres REIT fell, as stocks of retailers and consumer discretionary products started falling amid rising inflation. Canada's April inflation stood at 6.8% — way above the central bank's target inflation of 2%. Higher inflation started affecting consumer demand, and many retailers reported a demand shift to groceries and rising inventory in discretionary. The United States was the worst hit with 8.2% inflation in May and the consumer confidence index at the lowest level since September 2008.

Retailers are among the first to take a hit from slowing consumer demand. **Walmart** stock dipped

24.5%, while **Loblaw** stock fell only 6.5%. Both retailers provide everything from staples to pharmacies to discretionary. This difference in their stock price momentum shows the difference in consumer demand in the United States and Canada.

The consumer demand in Canada is not as severely affected as in the United States. But SmartCentres REIT is taking the heat of the U.S. consumer data, as it earns 25% rent from Walmart and another major chunk from Walmart-anchored stores. I have warned of one risk that could send SmartCentres crashing: the exit of Walmart from Canada. SmartCentres has a high dependence on one retailer. But Walmart has survived recessions and is unlikely to exit a market like Canada with strong consumer demand.

Apart from the retail industry weakness, Canada's house prices are seeing a correction, as rising interest rates make mortgages expensive. But that won't affect the rental income from apartments. SmartCentres has been broadening its portfolio into residential and commercial properties. Hence, its stock price took a slight hit from housing market weakness.

Why is now the right time for this REIT?

SmartCentres stock price has been falling due to external factors, but its fundamentals remain strong. The REIT has a distribution payout ratio of 81.4% and an interest coverage ratio of 3.5, indicating its stability to continue paying the distribution. If Canada goes into stagflation, I do not expect a pandemic-like crisis for SmartCentres where nationwide lockdowns significantly reduced its occupancy ratio.

The strongest point of SmartCentres is its retail properties are in prime locations in Greater Toronto and fetch a high rental income. Even if the economy falls into stagflation, the REIT has an asset base that could recover faster than others when economic growth returns.

If the central bank's monetary policy tightening starts easing inflation, the worst may be over, and Canada might avert stagflation. However, if COVID cases resurface, as they did in China, the REIT could see more downside, but it would continue paying monthly distributions. SmartCentres is a stock to buy now for regular stable income and capital appreciation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres 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. kduncombe
2. pujatayal

Category

1. Dividend Stocks
2. Investing

Date
2025/08/20
Date Created
2022/06/18
Author
pujatayal