Revealed: This Little-Followed Real Estate Stock Could Make You Rich

Description

One of the fun things about following the Canadian stock market is there are often opportunities to load up on fantastic stocks that many fellow investors have never heard of before.

Why do these great stocks fall through the cracks? I think one reason is because many Canadian investors focus their attention on U.S. companies, convinced the world's largest economy is the only answer. There's nothing wrong with stuffing your portfolio with U.S. stocks, but investors should also remember that there are great opportunities here in Canada as well.

Let's take a closer look at one such opportunity, a company that has posted a compound annual growth rate of more than 17% over the last 20 years. Despite such a good performance, it's doubtful many have even heard of this company.

A different kind of apartment owner

Led by CEO Bob Dhillon, **Mainstreet Equity Corp** (TSX:MEQ) takes a slightly different approach to buying apartments.

Most of Mainstreet's competitors are only interested in larger assets, properties consisting of 50 or 100 units. This makes it efficient enough for them to insert a property manager without having to spend too much.

Mainstreet does things much differently. The company acquires smaller buildings, including properties with as few as a handful of units. Usually, these properties require some renovations to bring them up to a higher standard. Since it owns so many of these smaller buildings – which are strategically located close together – Mainstreet can create the same kind of efficiencies that way.

The reason why Dhillon and his team focus on this strategy is there are way more acquisition possibilities and, perhaps most importantly, more opportunities for the company to score a deal. Once one of these buildings is acquired – usually for far less than its replacement value – the property is renovated and then refinanced, extracting the equity which is then used for a down payment on the next deal. It's a wonderful strategy that allows Mainstreet to grow without having to constantly go back to the capital markets.

The portfolio today consists of just over 13,000 apartments in 12 different Western Canadian cities. Approximately half of Mainstreet's units are located in Calgary and Edmonton, with other major markets including Regina, Saskatoon, Surrey, and Abbotsford.

Mainstreet has been adding properties at a frenzied pace over the last few years, buying 601 units in 2017, 1,296 units in 2018, and a further 1,118 units in 2019. Weakness in the energy market has hit Western Canada hard, and Mainstreet is taking advantage to bolster its portfolio at bargain prices.

Another thing Mainstreet does a little differently is that it doesn't pay a dividend. While this does alienate a certain number of potential investors, it gives the company a pretty unique structure. Long-term buy-and-hold investors can defer taxes for a number of years this way, which has a pretty compelling appeal.

And despite quietly being one of the TSX's best long-term performers, Mainstreet shares are still attractively valued today. They continue to trade at a nice discount to management's estimate of net asset value.

The company should also grow its funds from operations as properties that are being renovated get completed and start contributing to the bottom line. Additionally, it will also get a nice boost when the Alberta economy shakes off its current weakness and starts to grow again.

The bottom line

Despite posting excellent results for more than two decades now, it's easy to see continued upside for Mainstreet Equity. The company still has loads of growth potential in Western Canada, and it could easily move into new markets, too. It's the perfect stock to tuck away in your portfolio and forget about for a few years.

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