



Mainstreet Equity (TSX:MEQ): You Won't Believe How Cheap This Real Estate Stock Is

Description

The Toronto Stock Exchange is filled with cheap real estate stocks. As you'll see, **Mainstreet Equity** ([TSX:MEQ](#)) is easily one of the cheapest.

We all know why the real estate sector has been decimated. Thousands of Canadian renters have asked their landlords for rent deferrals as they lose their jobs. Even retail, office, and industrial landlords are feeling the pain, as their customers are potentially facing months of zero revenue.

Fortunately, banks and other debt holders are being reasonable. Most are allowing mortgagors to defer payments for a few months, although the interest accumulated during that time will still be tacked onto the principal owing. Still, it's a welcome reprieve for both homeowners and real estate investors.

So, even though the short term looks particularly bleak, I'm a big fan of picking up [cheap real estate stocks](#) today. Let's take a closer look at Mainstreet Equity, which is one of the cheapest.

The skinny

Mainstreet owns apartments in various Western Canadian markets, with a strong emphasis on the Calgary and Edmonton areas. As it stands today, the portfolio consists of some 13,000 apartments, with around 50% of assets located in Alberta's two largest cities. The company also owns apartments in Regina, Saskatoon, Surrey, and Abbotsford.

The company's strategy is a little different than most large residential landlords. It's content buying smaller apartment buildings, usually putting its cash to work in properties that need to be fixed up. Mainstreet then renovates the property, which leaves it free to raise the rent. And then — and this is the important part — the company then refinances the property, often for more than what it has invested.

The company also has an unorthodox view of dividends. Unlike almost every other real estate company, Mainstreet [doesn't pay investors a dividend](#). The company prefers to keep that cash on the

balance sheet, putting it to work in new apartment buildings.

This growth strategy has worked pretty well. Mainstreet purchased nearly 3,000 units from 2017 to 2019, and it looks well positioned today to gobble up bargains in its home province. Oil's recent collapse isn't very bullish for real estate in Alberta over the short term, but the province will likely bounce back, as the world gets back to normal.

The opportunity

First, let's take a closer look at how well Mainstreet's CEO Bob Dhillon and his team have grown shareholder value. The company has grown book value from \$11 million in 1998 to \$1.3 billion at the end of 2019, all with only minimal share dilution. This proves the company's long-term strategy is working nicely.

Despite all this growth, investors who buy today can get in at a substantial discount to book value. At the end of its most recent quarter, Mainstreet's book value was a hair under \$86 per share. As I type this, shares are trading hands at a little under \$57 each. That's a substantial discount of around 35%.

Shares are also cheap on an earnings perspective. The company earned \$4.60 per share in funds from operations in 2019. That puts shares at approximately 12 times that number, which is quite cheap for an apartment operator. Mainstreet's management previously told investors 2020's earnings should be better than last year's, because it was scheduled to complete renovations on a number of apartments. That's good news, although it may not happen as quickly as previously thought.

The bottom line on Mainstreet Equity

There's still ample opportunity for the company to take its business model to markets in Central or Eastern Canada, never mind additional growth opportunities out west. Today's economic uncertainty will certainly impact results in the short term, but the long-term thesis is still intact.

Simply put, Mainstreet Equity is a high-quality stock that is now trading at a bargain price. Investors who purchase these types of securities generally do pretty well.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/09/07

Date Created

2020/04/16

Author

nelsonpsmith

default watermark

default watermark