Buy Alert: This Small-Cap Real Estate Company on the TSX Is Well Poised for a Turnaround

### Description

Tensions between the U.S. and China are on the rise. Our neighbor to the south is seeing a massive rise in COVID-19 cases. Companies on the TSX are getting hit, as the economy is grappling with low demand and rising unemployment rates. It's tough to find companies that could make the most out of a bad market, but I believe real estate player **Mainstreet Equity** (TSX:MEQ) is up to the challenge.



Mainstreet operates in a rather unique way. It buys real estate (apartments), fixes it up, and then rents it out. Once the apartments have been renovated, the company refinances the property. This cash is then used to buy newer properties. It has been doing this since 2000, when it had 272 units. Today, it has 13,375 apartments, clearly proving that the strategy has worked very well.

The company reported its numbers for the second quarter of 2020. Mainstreet refinanced five matured mortgages for $75.8 million at an average rate of 2.32%. Around 95% of its tenants paid rent, which is pretty much the company average. Funds from operations (FFO) increased by 10%, net operating income saw a growth of 8%, and ad revenue grew 11%. This is the eighth consecutive quarter for double-digit growth in revenues and FFO.

## What's next for this TSX real estate player?

While Q2 numbers are good, the pandemic is expected to have an impact on Mainstreet revenues for the second half of the year. As the CERB (Canada Emergency Response Benefit) begins to taper off, there could be an increase in rent defaults and bad debts.

Social distancing has reduced employee productivity, while maintenance costs, including additional cleaning, sanitizing, and PPE (persona protective equipment) suits have soared. Mainstreet continues to renovate the existing property, as it gears up for the high rental season. The company believes that there will be a pushback to the season, and it will start in August.

That said, Mainstreet believes that the pandemic provides opportunities to organically expand its portfolio. The company is targeting aggressive expansion, as it expects a lack of buyers and panic-driven selling in the real estate market, which is likely to create a favourable buying environment.

Bob Dhillon, founder and chief executive officer of Mainstreet, said, “Despite economic turmoil, however, we now see unparalleled opportunities for organic growth in the second half of fiscal 2020.”

Fellow Fool contributor Nelson Smith had pointed out in April that Mainstreet is a very cheap stock, trading 35% below its fair value of $86. The company was trading at $57 levels then. Today, it is up to $68. That still leaves room for a rise of over 26% from current levels.

One key point to note with Mainstreet is that it doesn’t pay a dividend. All money is invested right back into the company. And with Canada’s population on the rise, and as the number of foreign students coming to Canadian shores keeps increasing, demand for rental properties will only go up.

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