



Value Investors: Could This Be Canada's Cheapest Real Estate Stock?

Description

Melcor Developments ([TSX:MRD](#)) is a real estate development and [asset-management company](#) that was founded in 1923. The company has operated and prospered for over 95 years due to stable and committed ownership of the Melton family and loyal and dedicated staff who are focused on the real estate industry.

Melcor's main operations are in Alberta, specifically in the metropolitan areas of Calgary, Edmonton, Grande Prairie, Lethbridge, and Red Deer. The company also holds and operates assets across Western Canada, including British Columbia and Saskatchewan, and the United States, including Arizona and Colorado. The company has several business segments including community development, property development, investment properties, and recreational properties.

Disciplined capital allocation

The company has necessary capabilities to execute Melcor's strategic initiatives and achieve the performance targets set out in the company's business plan. Melcor's management team is focused on ensuring a [disciplined approach](#) and hands-on management of the company's projects, assets, and capital.

Management's depth of experience in the real estate industry provides a competitive advantage. The company's business model is focused on earning sustainable returns over the long term. Melcor employs management and administrative personnel to manage the company's business. It uses third-party contractors to carry out development and construction activities such as planning, design, engineering, architecture, and utilities servicing.

Financial strength

The company also contract property-management services for some assets in the company's investment properties division, and it employs approximately 183 seasonal staff in the recreational properties division over the golf season.

Melcor's operations and assets are concentrated in and around major population and employment centres. The company develops long-term relationships with the municipalities, construction industry, financial institutions, and the people who live in these communities.

Further, Melcor's competitive position is shaped by the company's financial strength and proven track record. The company has a solid asset base, including raw land holdings, and experienced personnel. The majority of the company's assets are located in Alberta, where oil and gas activity is a significant economic driver. While the company's direct reliance on oil and gas is minimal, Melcor's business is reliant on overall market conditions and consumer confidence.

Excellent relationship with lenders

The company maintains a strong financial position and is poised to take advantage of purchase opportunities that a softer real estate market may provide. Melcor maintains strong relationships with major lenders. The company's capital structure and liquidity allow continued access to financing in spite of fluctuations to credit markets and the economic environment. Melcor uses fixed rate, long-term mortgages on the company's revenue-producing assets to raise capital for acquisitions, development activities, and other business expenditures.

Most of Melcor's borrowings are in the form of long-term financings secured by specific assets. Operations are supplemented by a syndicated operating line of credit with Canadian chartered banks, which margins Melcor's land development assets. The company uses fixed rate, long-term mortgage financing on Melcor's revenue-producing assets to raise capital for acquisitions, development activities, and other business expenditures.

Overall, Melcor trades at a very inexpensive valuation. The stock should rise as commodity prices recover.

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