



2 TSX Small Caps to Buy Right Now

Description

Investing in small-cap stocks is a high-risk, high-reward strategy. Some of the largest companies in the world today were once small-cap stocks, successfully creating massive investor wealth over time. Generally, a company is considered as a small cap if its market cap ranges between \$300 million and \$2 billion.

Small-cap companies can offer massive growth opportunities to long-term investors. While the upside potential is enticing, these stocks are also much more volatile than established blue-chip companies.

With these factors in mind, I have identified two small-cap stocks trading on the TSX that can be part of your equity portfolio in 2022.

Exchange Income Corp

Valued at a [market cap](#) of just below \$2 billion is **Exchange Income Corp** ([TSX:EIF](#)). In the last 10 years, the company has returned 262% to investors after adjusting for dividends.

Exchange Income pays investors a monthly dividend of \$0.21 per share, translating to a forward yield of 5.3%. So, an investment of \$1,000 in EIF stock will allow investors to generate \$53 in annual dividends. Exchange Income has increased its payouts by 50% since 2014, making it attractive to income-seeking investors.

A diversified, acquisition-oriented company, Exchange Income is focused on opportunities in the aerospace, aviation, and manufacturing sectors. It acquires profitable entities that generate strong cash flows and operate in niche markets.

In the second quarter (Q2) of 2022, Exchange Income increased revenue by 64% year over year to \$529 million. Comparatively, adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) rose 42% to \$115 million, while free cash flow surged 30% to \$47 million. Its adjusted net income almost doubled to \$39 million in Q2, which was a quarterly record for the company.

Exchange Income stock is valued at 15 times [forward earnings](#) and has a price-to-sales multiple of one, which is very reasonable. Analysts expect its adjusted earnings to expand at an annual rate of 11.4% in the next five years. EIF stock has significant upside potential and is trading at a discount of 30% to the average price target estimates.

Mainstreet Equity

A real estate company valued at \$1.10 billion by market cap, **Mainstreet Equity** ([TSX:MEQ](#)) has returned 277% to investors since September 2012. It has grown its portfolio from 272 units with a market value of \$17 million to more than 15,500 units with a market value of \$2.75 billion.

Mainstreet claims it is a value creator, as it purchases underperforming mid-market properties and renovates them while improving operational efficiency.

Typically, mid-market properties have less than 100 units, which are not attractive enough for institutional investors. Further, these properties are often mismanaged and need to be renovated to attract tenants with quality credit scores.

Mainstreet has successfully reduced operating costs, as it clusters the properties by purchasing multiple mid-market buildings in a particular area. It then appoints a single building manager to supervise 150 to 200 units (around four to seven buildings) in that area, reducing management and maintenance costs considerably.

The mid-market multi-family apartment segment is among the most resilient and safe asset classes. Between 2000 and 2021, Mainstreet Equity increased funds from operations per share by 16% annually. Comparatively, its revenue has risen from \$8 million to \$160 million in this period, indicating a growth rate of 15% annually.

Despite its outsized gains, MEQ stock is trading at a discount of over 15% to consensus price target estimates.

CATEGORY

1. Investing

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2. TSX:MEQ (Mainstreet Equity Corp.)

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Date

2025/08/17

Date Created

2022/09/12

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