Financial Post

Follow the Money

Big jump in NAV as Mainstreet releases Q1 financials, first under IFRS

Barry Critchley Mar 6, 2012 – 1:27 PM ET

The news had been clearly foreshadowed, but on Tuesday, Calgary-based Mainstreet Equity Corp. released its first financial results under the International Financial Reporting Standards — and not as it had used in all its previous releases, Canadian GAAP.

And the difference is rather dramatic: Mainstreet, which released its audited Q1 financials Tuesday, reported that its national portfolio of 7,797 units in mid-market family apartment buildings "is valued at $956-million, with net asset value equal to $42 per share basic."

By way of comparison, the same portfolio on a historical book value was deemed to be worth $505-million.

"This [move to IFRS from Canadian GAAP] increases the reportable net asset value to $437-million which equates to $42 per share basic and $39 per share fully diluted, and reduces the debt to fair market value ratio to 54% instead of 102% measured at historical cost basis," said Bob Dhillon, the company's chief executive.

"In the past, we looked like an overleveraged company because loans to value was high. Now we look live an under-leveraged company," added Mr. Dhillon.

MAINSTREET EQUITY CORP.

More importantly, from Mr. Dhillon's perspective, the new valuation shows, for the first time "how much value we have created through this one time gain on the balance sheet."

For the quarter, Mainstreet posted $3.4-million in funds from operations (a 14% increase) and $11.1-million in net operating income (a 10% gain.) The company also reported a drop in vacancy rate to 8.7% from 11.2%. During the three-month period, Mainstreet acquired 435 additional unstabilized units for $42-million. It is also adept at financing: during the quarter it raised a 10-year insured loan from CMHC at 2.96%.

Jeffrey Olin, chief executive at Vision Capital Corp. and a major shareholder at Mainstreet, said the "result reflects Mainstreet's value creation strategy which it has been executing since inception in 1998. The market still does not appreciate the effectiveness of the strategy and the skill of their management team in executing it."

Mr. Olin added that while analysts have moved up their estimates of net asset value, "they still lag the value. The facts are now established on an independent and appraised basis, yet the shares are trading at around $23 a share. This is in contrast to REITs," added Mr. Olin.

Posted in: Financial Services News, FP Street Tags: Bob Dhillon, IFRS, International Financial Reporting Standards, Jeffrey Olin, Mainstreet Equity Corp.

BARRY CRITCHLEY

bcritchley@nationalpost.com