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'Best Buys' from leading analysts

Analysts follow as many as 20 stocks, most of which are rated "buys." Of those buys, an analyst has one or two special favorites seen as most suitable for new buying.

This column is devoted to those one or two favorite "best buys."

If you believe you can make more money buying real estate properties as opposed to buying shares of publicly listed real estate companies, then you should talk to Frank Mayer, chairman of Vision Capital Corp. Frank and his partner Jeffrey Olin, president and CEO, began managing money in July 2008, after lengthy careers with major Canadian investment firms, with two funds focused primarily on publicly traded Canadian real estate corporations and real estate investment trusts. It did not appear to be an auspicious time as investors around the world facing mounting losses would soon start abandoning stocks in droves.

"If you look at the largest of those funds, at the end of October 2011, after three years and four months, it was up 106 per cent, net of all fees and expenses," Frank points out. "This equates to 24 per cent on a compound annual basis." Vision's funds can buy real estate directly but so far haven't done so.

"We believe real estate can be purchased much more cheaply in the stock market," he says. "It's much easier to buy and sell shares or units than it is to buy and sell properties. Moreover, a purchase of securities is not encumbered with a property-management responsibility — fixing plumbing in the middle of the night — but

rather benefits from industry-leading hands-on professionals."

Vision Capital now manages about \$100 million in three different funds. Frank says Canada's real estate markets are in good shape with "vacancy rates across all Canadian property classes in all regions in single-digit territory, indicating a favorable balance between demand and supply, quite a contrast to the United States where double-digit vacancy rates are the rule."

His first *Best Buys* recommendation is **Mainstreet Equity Corp.** (MEQ-TSX, \$18.60), a Calgary-based company that buys rundown apartment buildings at a rock bottom price, fixes them up, re-leases them and refinances them at the new enhanced value, thereby taking out all or most of the equity committed to the property initially. In this fashion, Mainstreet has grown from 272 apartment units in 1998 to more than 7,300 today — all with just \$10 million (net of investors' money). Vision funds collectively own 10 per cent of Mainstreet, and Frank owns shares personally.

"This is a classic example where the market is being inefficient, where you can buy shares far cheaper than the real estate is really worth," Frank says. "We believe that Mainstreet's net asset value per share now exceeds \$33 a share. The company will report

an updated appraisal in the next few months and we wouldn't be surprised if the company's appraisal approaches \$40. And whether it's \$33 or \$40, the fact of the matter is the shares are trading around \$18.60."

He calls Mainstreet's share-price discount to net asset value "a rather stark, if not dramatic, contrast to the premium accorded Canadian real estate investment trusts. He says REITS on average are trading at a 4.6 per cent premium to their net asset value, and the apartment sector is trading at a 1.1 per cent premium. He notes that Alberta-focused Boardwalk REIT, which owns 35,000 apartment units, "trades at around 100 per cent of net asset value, whereas Mainstreet trades at a 44 per cent discount to net asset value."

Boardwalk also pays a dividend or distribution, while Mainstreet does not. Instead, Mainstreet uses its cash flow either to buy additional properties or buy back shares. A few years ago, Mainstreet used to have about 15 million shares outstanding. Today that's down to about 11 million shares. He expects the share price will not stay a bargain for long and will rise "substantially" in the near term.

The next pick of Vision Capital's chairman is also headquartered in Calgary, an "emerging" stock that is out to consolidate

and expand the day-care business in Canada, **Edleun Group Inc.** (EDU-TSX/VEN, \$0.86). He says Edleun (the name is formed from the first two letters of education, learning, universe) has a strong balance sheet and, 18 months after it began providing "quality child-care space," now owns 38 day-care centres in Alberta and British Columbia, and is currently "building an acquisition pipeline" in Ontario. Most of these centres have been significantly renovated and upgraded, and the company has instituted new and enhanced educational curriculum and nutritional programs.

While there are about 8,500 day-care centres in Canada, mostly of the "Mom and Pop" variety, he says there is a profound shortage in most Canadian cities, partly because most provinces subsidize day-care costs for low income families. "In Alberta, it costs about \$1,000 or \$1,100 a month to put an infant into day-care," Frank says. "If householders earn less than \$75,000, they qualify for a subsidy of approximately \$550 per month from the provincial government, and the money is wired directly to Edleun." He expects Edleun to "grow dramatically over the next five years," aided by "co-location opportunities in apartment and shopping centre properties owned by major landlords, both public and private, across the country."