

# Investor's Digest

of Canada

October 3, 2014

Vol. 46, No. 18

## '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 Calgary-based **Mainstreet Equity Corp.** (MEQ-TSX, \$41) is anything, it's a growth story. Just ask Jeffrey Olin, president and chief executive officer of Vision Capital Corp. in Toronto.

He'll tell you that in only 16 years, Mainstreet has gone from owning 272 apartment worth \$17 million to owning roughly 8,400 units worth \$1.2 billion.

But exponential growth isn't the only reason Mr. Olin likes Mainstreet. He also likes the conditions under which it does business.

Because the company is exclusively focused on Western Canada, it can capitalize on that region's robust economy — and, by extension — its shortage of residential accommodation.

And residential accommodation in the West is in short supply. Not only is the vacancy rate in both Calgary and Edmonton just one per cent, but rents in both cities are likely to rise four to eight per cent over the next year, Mr. Olin notes. Moreover, there's no rent control.

Yet another Mainstreet plus is its business model. Rather

than relying on equity markets for growth, the company is a value creator. Put simply, it buys rundown apartments, fixes them up and then rents them out at higher rates.

Moreover, because Bob Dhillon, Mainstreet's founder and CEO, owns 35 per cent of the company's stock, his interests are aligned with those of the minority shareholders, says Mr. Olin.

For Mr. Olin, Mainstreet Equity is a best buy — one with a 12-month price target of \$50 a share.

Besides Edmonton and Calgary, the company has holdings elsewhere in Alberta at Cochrane and Fort Saskatchewan. In addition, Mainstreet owns properties in Saskatoon, as well as in Surrey and New Westminster, B.C., two of Vancouver's fast-growing suburbs.

For the three months ended June 30, Mainstreet swung to a net profit of \$24.8 million, or \$2.37 a share, from a net loss of \$872,000, or \$0.07 a share, for the similar period in 2013.

Revenue, not surprisingly, was also higher, rising to \$23 million from \$19.8 million, while net op-

erating income increased to \$15.3 million from \$13.2 million.

Mr. Olin may like a Calgary-based real estate firm such as Mainstreet Equity. But he also has a soft spot for another real estate outfit such as **Brookfield Residential Properties Inc.** (BRP-TSX, \$22.51) that's also headquartered in Calgary.

For one thing, Brookfield, with a dominant market position in Alberta, is obviously leveraged to that province's robust growth. Indeed, in Alberta, Brookfield is highly profitable, Mr. Olin says.

Moreover, with 55,000 lots in the U.S. both zoned and entitled for residential construction, the company is also leveraged to the recovery in that country's housing market.

Indeed, because many of Brookfield's lots in the U.S. are class A or class B, the company is able to benefit from America's shortage of such sites.

And as one of the very few publicly traded land developers in the U.S., Brookfield is a good play on both development and residential construction.

In addition, the company has

a big footprint in such strong U.S. markets as Southern California, Denver, Colo., Austin, Texas and Washington, D.C.

Another Brookfield plus? Exceptional management — especially in the person of Alan Norris, its president and CEO.

"Al Norris and his team have been doing this for many years. And they're very experienced in their markets," Mr. Olin says. "They've just very strong in what they do."

For Mr. Olin, Brookfield Residential Properties is also a best buy — one with a 12-month price target of \$25 a share.

For the three months ended June 30, Brookfield's net income jumped to US\$49 million, or \$0.36 a share, from \$24 million, or \$0.21 a share, for the similar period in 2013.

Revenue, not unexpectedly, was also higher, rising to US\$321 million from \$298 million, while pre-tax income increased to US\$49 million from \$30 million.

*[Vision Capital owns positions in both Mainstreet Equity and Brookfield Residential Properties]*