



Company Profile

Mainstreet is a Calgary based real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/ Lower Mainland, Calgary, Edmonton, Saskatoon and Regina. MEQ owns 300+ properties comprising 13,000+ suites.



Market and Company Data

Ticker	MEQ-T	Shares O/S (M)	9.4
Rating	Buy	Market Cap (M)	\$657
Risk	Medium	Debt (M)	\$1,128
Price	\$70.00	Enterprise Value (M)	\$1,785
1-Yr Target	\$85.00	Avg. Daily Volume (K)	4.26
Dividend	\$0	AFFO Payout Ratio	NA
Div. Yield	0%	2020 Debt to EBITDA	14.4x
1-Yr ROR	21%	Debt to GBV	53%
52 Wk Hi-Lo	\$96.25-41.75	NAV	\$80.00
Year End	Sep-30	Cap Rate	5.4%
Next Reporting	Aug-'20	Price / NAV	88%
Valuation	15% Premium to NAV, 5-yr DCF		

Funds From Operations (FFO) per share

	Q1	Q2	Q3	Q4	Annual	P/FFO
F2019A	\$1.00 A	\$0.87 A	\$0.99 A	\$1.29 A	\$4.17 A	16.8x
F2020E	\$1.20 A	\$0.97 A	\$1.03	\$1.13	\$4.33	16.2x
F2021E	\$1.20	\$0.97	\$1.03	\$1.13	\$4.33	16.2x

Adjusted Funds From Operations (AFFO) per share

	Q1	Q2	Q3	Q4	Annual	P/AFFO
F2019A	\$0.72 A	\$0.61 A	\$0.68 A	\$0.98 A	\$2.99 A	23.4x
F2020E	\$0.89 A	\$0.65 A	\$0.71	\$0.81	\$3.06	22.9x
F2021E	\$0.89	\$0.65	\$0.71	\$0.81	\$3.06	22.9x

All figures in Canadian dollars unless specified otherwise

Soft Q2/F20 on Higher Operating Costs; Alberta Fundamentals Already Improving

Our take: MEQ continues to deliver steady operating results, announcing its eighth consecutive quarter of double digit FFO/share growth, a feat very few Canadian real estate companies have been able to pull. And this growth is achieved when MEQ's largest market, Alberta is experiencing a relatively lukewarm economic environment, highlighting the success of MEQ's unique repositioning strategy. As a result, we believe, MEQ is a compounding machine that should be part of every long-term growth portfolio.

Soft Q2/F20 (ended March 31st): Diluted FFO/share of \$0.97, 10% above the \$0.87 a year ago, was below our \$1.06 estimate (consensus was \$1.14). Property operations performed below our forecast, primarily due to higher operating costs, partly attributable to the COVID-19 crisis.

Saskatchewan was impacted the most by COVID-19 crisis: MEQ's SK portfolio (~17% of NOI) was hit the hardest in terms of bad debt and other costs. SP-NOI increased 5% in BC, 1% in AB and -5% in SK, with the overall figure at 1%. Same-asset occupancy was 93.4%, down 40bps YoY. Overall occupancy was 92.6%, and currently remains in that range. See Exhibit 1 for details. In Q3/F20, MEQ has been able to collect 95% of its rent, in-line with its Western Canadian peers.

Occupancy is expected to be higher by fiscal year-end: MEQ expects a weaker FQ3 (April-June) due to higher bad debt expenses and delays in its renovation program and leasing cycle. Nonetheless, given the current rental trends, management thinks that overall occupancy will be in the 96% range by September-end. This expectation takes into account the fact that low demand for student rentals may cause some softness in occupancy.

Focus on locking down historically low interest rates: MEQ has been active on renewing its mortgages at historically low interest rates (CMHC is offering 10-year money at 1.6%). In Q2-Q3, MEQ raised \$111MM of incremental funds by refinancing maturing mortgages and mortgaging clear-title properties. At Q2/F20, MEQ had clear-title properties worth \$177MM. This liquidity should allow MEQ to be active on the acquisition front as properties shake loose in the crisis. Its ability to buy distressed properties is critical to MEQ's sector leading FFO/share growth.

Maintaining Buy rating and \$85 Target: While Q2/F20 was below our forecast, our 2020 FFO and AFFO estimates are increasing as we are raising our occupancy and margin assumption, as AB and SK fundamentals have not deteriorated as much as we had expected. Our NAV estimate is based on a stable scenario. See Exhibit 3 for our model.

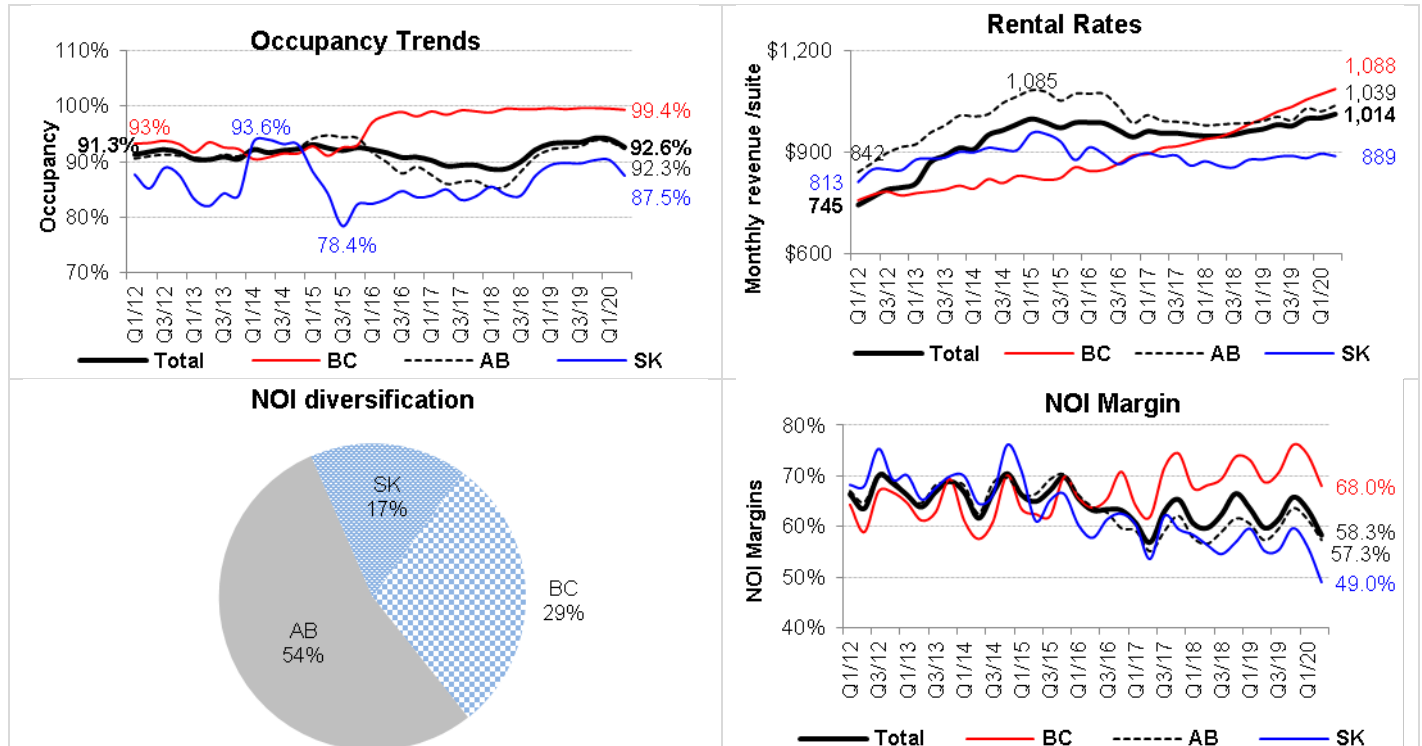


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June 24, 2020

Saskatchewan portfolio: While the 280bps decline in SK occupancy in the quarter (from Q1/F20) was partly attributable to MEQ's recent low-occupancy acquisitions, part of the decline is attributable to tenants skipping suites when the COVID crisis hit in March. See Exhibit 1 for NOI margins by region.

Exhibit 1. Operating Performance



Source: Company Reports, LBS



Laurentian Bank Securities Equity Research Action Note

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(MEQ-T – \$70.00)
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MEQ trades at 12% discount to NAV: As shown below, MEQ trades at a 12% discount to our stabilized NAV estimate, vs. the peer average at 6%. Also on a relative basis, MEQ trades ~3 multiple points below the 2020 P/FFO multiple of its peer group.

Exhibit 2. Comp Table*

		Price	Market		Target	Total	Distribution			Price /		Price / FFO		Price / AFFO		Debt /	Debt /
Company	Company	6/23/20	Cap \$MM	Rating	Price	Return	Rate	Yield	Payout	NAV	NAV	2019A	2020E	2019A	2020E	GBV	EBITDA
Canadian listed Apartment REITs																	
Boardwalk REIT	BEI.UN	C\$29.17	1,486	Buy	\$43.00	51%	1.00	3.4%	65%	43.00	68%	11.3x	13.4x	14.7x	18.8x	45%	14.6x
BSR REIT	HOM.U	US\$10.72	477	Buy	US\$11.25	10%	0.50	4.7%	119%	10.50	102%	14.7x	18.0x	20.6x	25.5x	49%	11.5x
InterRent REIT	IIP.UN	C\$14.58	2,054	Buy	\$17.00	19%	0.31	2.1%	80%	13.50	108%	30.3x	32.1x	35.7x	37.6x	33%	9.2x
Killam Apartment REIT	KMP.UN	C\$17.60	1,802	Buy	\$20.00	18%	0.68	3.9%	93%	17.50	101%	18.0x	19.4x	22.3x	24.2x	45%	11.4x
Morguard NA REIT	MRG.UN	C\$14.97	905	Buy	\$21.00	45%	0.70	4.7%	79%	23.00	65%	12.4x	13.6x	15.1x	17.0x	47%	12.6x
Mainstreet Equity	MEQ	C\$70.00	656	Buy	\$85.00	21%	NA	NA	NA	80.00	88%	16.8x	16.2x	23.4x	22.9x	53%	14.4x
Northview REIT	NVU.UN	C\$34.63	2,386	Tender	\$36.25	9%	1.63	4.7%	92%	27.30	127%	17.1x	16.4x	20.8x	19.5x	50%	10.8x
Minto REIT	MI.UN	C\$20.29	925	Not Rated	NA	NA	0.44	2.2%	52%	22.11	92%	23.9x	23.5x	24.4x	24.2x	46%	7.4x
CAP REIT	CAR.UN	C\$49.47	8,441	Not Rated	NA	NA	1.38	2.8%	67%	51.95	95%	23.4x	21.8x	23.4x	23.9x	38%	9.6x
Average /TOTAL	Average /TOTAL		19,132					3.6%	80.9%		94%	18.7x	19.4x	22.3x	23.7x	45%	11.3x

*Consensus estimates for companies not under coverage.

Source: Thomson, LBS estimates



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Exhibit 3. Financial Summary

Financial Statements and Ratios						Key Ratios and Assumptions					
All figures in C\$, unless stated otherwise							F2018A	F2019A	F2020E	F2021E	Stabilized
INCOME STATEMENT						Leverage Ratios					
Year-end Sept.	F2018A	F2019A	F2020E	F2021E	Stabilized	Debt to GBV (incl. conv)	51%	52%	52%	52%	52%
Revenue	115,665	137,613	147,320	150,600	148,256	Debt to GBV (excl. conv)	51%	52%	52%	52%	52%
Operating expenses	(43,444)	(51,305)	(57,458)	(57,649)	(48,351)	Net debt / EBITDA	15.0x	14.2x	14.4x	13.8x	12.2x
Net operating income	72,221	86,308	89,862	92,951	99,905	Interest coverage	2.0x	2.1x	2.1x	2.2x	2.0x
Other income	564	439	172	300	-	Model Assumptions					
G&A expenses	(10,925)	(12,463)	(12,693)	(13,788)	(12,600)	Occupancy (avg)	90%	94%	92%	92%	95%
EBITDA	61,860	74,284	77,340	79,463	87,305	Rent / month / suite	\$954	\$983	\$1,007	\$1,017	\$998
YoY growth		20%	4%	3%		Speculative Acq'n (MMS)	-	-	-	-	-
Financing costs	(31,458)	(34,771)	(36,600)	(36,080)	(42,631)	Assumed cap rate	0.0%	0.0%	0.0%	0.0%	0.0%
Cash taxes	-	-	-	-	-						
Other items	(732)	(255)	(145)	(0)	-						
Recurring FFO	29,670	39,258	40,595	43,383	44,675						
Maint capex	(10,284)	(11,302)	(11,920)	(11,983)	(11,732)						
Subsidies & other items	(0)	-	-	-	-						
AFFO	19,386	27,956	28,676	31,401	32,943						
FFO/share (FD)	\$3.11	\$4.15	\$4.33	\$4.62	\$4.76						
AFFO/share (FD)	\$2.03	\$2.99	\$3.06	\$3.35	\$3.51						
Payout Ratios											
Dividend / share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
Recurring FFO	0%	0%	0%	0%	0%						
AFFO	0%	0%	0%	0%	0%						
STATEMENT OF CASH FLOWS SUMMARY											
	F2018A	F2019A	F2020E	F2021E	Stabilized						
Cash Provided by (used in)											
Operating activities	32,562	40,473	33,188	43,383	44,675						
Investing activities	(95,066)	(148,668)	(77,495)	(11,983)	(11,732)						
Financing activities	38,121	107,881	54,237	(5,281)	-						
Cash Beginning of period	24,767	384	70	10,000	1,686						
Increase (decrease)	(24,383)	(314)	9,930	26,120	32,943						
Cash End of the period	384	70	10,000	36,120	34,629						
BALANCE SHEET SUMMARY											
	F2018A	F2019A	F2020E	F2021E	Stabilized						
PP&E	1,865,897	2,040,051	2,104,085	2,115,124	2,057,681						
Intangible assets	143	1,145	1,424	1,424	1,392						
Other Assets	12,307	14,829	26,284	52,404	51,538						
Total Assets	1,878,347	2,056,025	2,131,793	2,168,951	2,110,611						
Mortgage debt	956,965	1,019,723	1,110,567	1,118,642	1,015,235						
Credit facility	1,858	56,442	13,356	-	70,106						
Unsecured debentures	-	-	-	-	-						
Convertible debentures	-	-	-	-	-						
Total debt	958,823	1,076,165	1,123,923	1,118,642	1,085,341						
Other liabilities	169,963	179,555	178,571	178,571	175,334						
Equity	749,561	800,305	829,299	871,739	849,936						
Liabilities & Equity	1,878,347	2,056,025	2,131,793	2,168,951	2,110,611						
Basic shares outstanding	8,832	9,382	9,382	9,382	9,382						

Source: Company Reports, LBS

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June 24, 2020

Important Disclosures

Company	Ticker	Disclosures*
Mainstreet Equity Corp.	MEQ-T	A, V

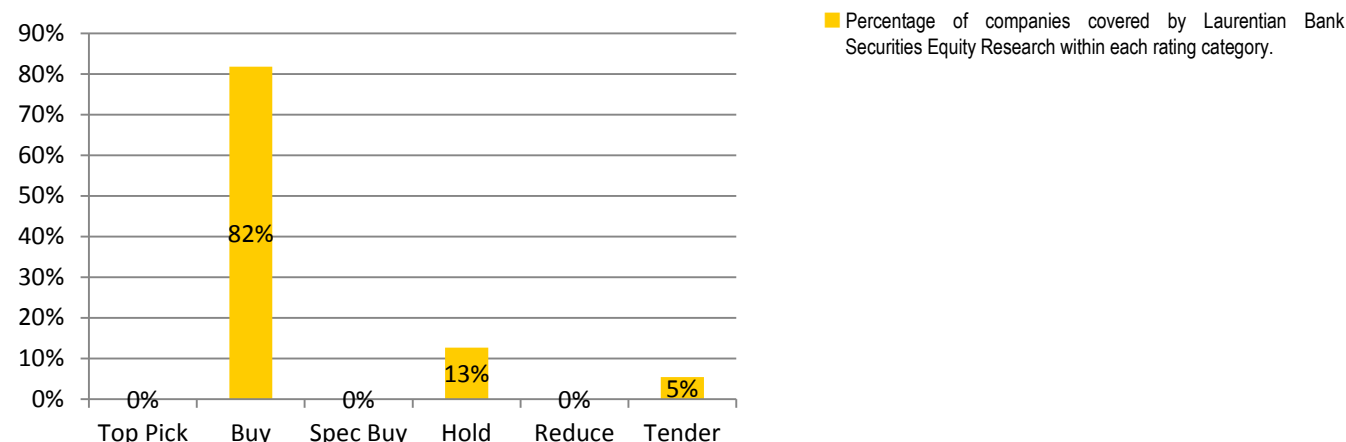
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Laurentian Bank Securities Equity Research Ratings Distribution



Source: Laurentian Bank Securities

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	Hold	The stock is expected to generate modest risk-adjusted returns over the next 12 months.
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	Tender	Analyst is recommending that investors tender to a specific offering for the stock.
	Our ratings may be followed by "(S)" which denotes that the investment is speculative and has a higher degree of risk associated with it. Additionally, our target prices are based on a 12-month investment horizon.	
Risk Ratings	Low	Low financial/operational risk, high predictability of financial performance, low stock volatility.
	Medium	Moderate financial/operational risk, moderate predictability of financial performance, moderate stock volatility.
	High	High financial/operational risk, low predictability of financial performance, high stock volatility.

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