Canaccord Genuity Capital Markets

Initiation of Coverage

Mainstreet Equity Corp.

Real Estate

Canadian Equity Research
27 October 2020

Rating	Price Target
BUY	C$91.00
MEQ-TSX	Price C$65.08

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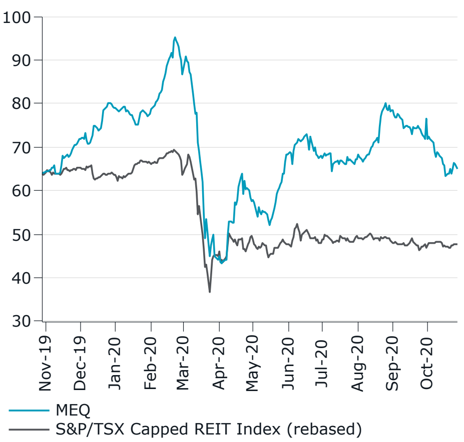
Unique business model drives growth in cash flow per share for value-add apartment consolidator

Market Data

52-Week Range (C$) :	41.75 - 96.25
Avg Daily Vol (000s) :	7
Market Cap (C$M) :	608.5
Shares Out. (M) :	9.3
Implied Return to Target (%) :	39.8
Debt/GBV (%) :	53.0
NAV /Shr (C$) :	90.75
Prem (Disc)/NAV (%) :	(28.3)
Implied Cap Rate (%) :	6.0
Major Shareholders:	Bob Dhillon (46%)

FYE Sep	2019A	2020E	2021E	2022E
FFO (C$)	4.17	4.62	4.75	5.03
P/FFO (x)	15.6	14.1	13.7	12.9
AFFO (C$)	2.82	3.18	3.22	3.41
P/AFFO (x)	22.8	20.4	20.2	19.1

Quarterly FFO	Q1	Q2	Q3	Q4
2019A	1.00	0.87	0.99	1.29
2020E	1.20A	0.97A	1.17A	1.28
2021E	1.20	1.00	1.20	1.35
2022E	1.27	1.06	1.27	1.43



Source: FactSet

Priced as of close of business 26 October 2020

Mainstreet Equity Corp. is one of Canada's largest apartment owners and operators with a portfolio comprising nearly 14,000 suites valued at approximately $2 billion.

We are initiating coverage of Mainstreet Equity Corp. (Mainstreet) with a BUY rating and $91.00 target price. Mainstreet is one of Canada's largest apartment owners and operators, with a portfolio comprising 13,579 suites valued at approximately $2 billion. Since its initial listing on the TSX in 2000, the company has achieved substantial growth in its asset base and has been one of the best performing real estate stocks on the TSX (CAGR since inception of ~15%) by executing its differentiated business strategy (more later). The company is led by an entrepreneurial and highly aligned management team including its founder and CEO, Bob Dhillon, who alone owns 46% of shares outstanding.

We acknowledge the company's exposure to resource-reliant provinces (AB and SK represent ~70% of NOI) and higher leverage (14.5x D/EBITDA vs peer average of 10.7x) slightly elevates its risk profile relative to many of its apartment peers. However, in our view, Mainstreet represents an attractive opportunity for investors to gain exposure to Canada's stable and defensive multi-family sector through a high-growth company. Our investment thesis is further supported by the following factors:

- **Differentiated business strategy drives sector-leading growth in cash flow per share.** Mainstreet's differentiated business strategy of acquiring mid-market (typically less than 100 suites) and value-add properties located exclusively in Western Canada has translated into sector-leading growth in cash flow per share. Over the past nine years, Mainstreet has grown its FFO per share from $1.08 to $4.62 (CG's 2020 estimate), resulting in a CAGR of 18%, as compared to its publicly listed apartment peers at 5%.
- **Significant liquidity position provides capital to consolidate market niche and geographically diversify portfolio.** Mainstreet owns a large portfolio of clear title/ unencumbered assets and also has $82 million in mortgages maturing before the end of 2021. After refinancing these assets via low cost, long-term, and fixed-rate CMHC-insured mortgage debt, we estimate that the company will have significant liquidity in the amount of $240 million. By deploying this capital, it will allow the company to continue to consolidate its market niche, diversify its portfolio away from Alberta and Saskatchewan, and drive material increases in FFO per share.
- **Highest exposure among apartment peers to strong Vancouver/Lower Mainland, BC rental market.** Mainstreet provides investors with exposure to the strong Vancouver/Lower Mainland, BC rental market with approximately 27% of the company's asset value located in this market. This is by far the highest exposure among publicly traded apartment REITs and should provide the company with inherent NAV and cash flow growth as rents are marked to market upon turnover.

Valuation. Utilizing a 5.25% cap rate, our NAV estimate is $90.75 per share. Mainstreet's shares currently trade at an implied cap rate of 6.0%, or at a 28.3% discount to our estimated NAV per share, as compared to its Canadian listed multi-family peers, which trade at a discount of, on average, 17.3%. On a cash flow multiples basis, Mainstreet's shares currently trade at 13.7x 2021E FFO per share, as compared to 18.1x for Canadian listed multi-family REITs/REOCs.

Investment Recommendation. We believe Mainstreet is an attractive vehicle for investors seeking long-term capital appreciation (the company does not pay a dividend) and growing cash flow per share. Our $91.00 target price is set in line with our NAV estimate and implies a one-year total return of 39.8%. We are initiating coverage of Mainstreet with a BUY rating.

For important information, please see the Important Disclosures beginning on page 26 of this document.

Table of Contents

Mainstreet's differentiated business strategy

Mainstreet, and its business strategy, are different from a typical apartment REIT in several ways:

- Mainstreet is a corporation, not a REIT;
- Mainstreet does not pay a dividend, whereas most REITs pays out the majority of free cash flow to unitholders in the form of distributions;
- Mainstreet acquires mostly non-stabilized or value-add properties, whereas REITs primarily acquire stabilized assets;
- Mainstreet focuses exclusively on Western Canada where there is less competition for assets, whereas most REITs focus on larger markets in Eastern Canada where competition for assets is higher;
- Mainstreet focuses exclusively on the most affordable segment of the rental market (average rents less than $1,000), whereas most REITs invest across the affordability spectrum including at the high end;
- Mainstreet acquires primarily mid-market apartments (i.e., 100 or fewer suites per building), whereas most apartment REITs acquire larger properties; and,
- Mainstreet does not issue equity to support its growth, instead utilizing its free cash flow and debt refinancing, whereas a typical apartment REIT issues equity to grow.

Figure 1: Mainstreet differs from a typical Canadian apartment REIT in several ways

Description	Structure	Dividend/ Distribution	Growth financing	Capex	High/ low rise	# of units	Avg rental rates	Geographic focus	Strategy
Mainstreet	Corporation	No	FCF/debt	Low	Low	<100	<$1,000	Western CA	Value-add
Apartment REITs	REIT	Yes	Equity/debt	Medium/high	Med/high	>100	>$1,000	Eastern CA	Stabilized

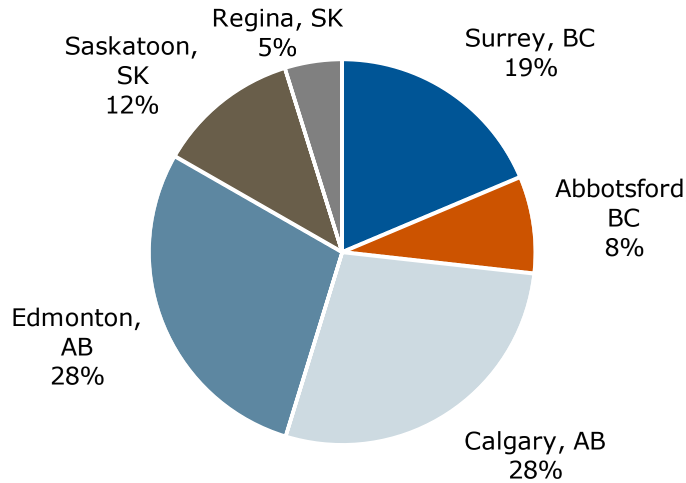
Source: Canaccord Genuity

Portfolio characteristics

Mainstreet owns a diversified portfolio of income-producing, multi-family residential properties across Western Canada. It focuses on acquiring mid-market multi-family buildings that are relatively small and therefore often overlooked by larger investors such as REITs and pension funds. Typically, these properties comprise 100 units or fewer and cater to the more affordable segment of the rental market.

Currently, the portfolio totals 13,579 units, and ~350 properties, resulting in, on average, 39 units per property. Mainstreet's largest markets are Edmonton (~4,600 units or 28% of fair value), Calgary (~3,000 units or 28%) and Vancouver/Lower Mainland BC (~2,800 units or 27%).

Figure 2: Mainstreet's geographic exposure (by fair value)



Source: Mainstreet Equity Corp., Canaccord Genuity

The Mainstreet "Value Chain"

Mainstreet creates value by acquiring underperforming properties and repositioning them to a higher standard

The first step in Mainstreet's value creation process involves the acquisition of underperforming assets at prices significantly below replacement cost. Year-to-date, the average price per door of Mainstreet's acquisitions has been $132,000.

Typically, the company invests significantly into repositioning acquired assets. These include interior and exterior upgrades to expand operating margins by increasing revenues and reducing expenses through operational efficiencies.

Occasionally, the company will divest some of its mature properties to help unlock capital which can then be redirected to further acquisitions and higher growth opportunities. This is all part of the company's value creation process, which we outline below:

Figure 3: Mainstreet's six step "value chain" model

Value creation process	Details
Acquisitions	Identify and buy under-performing rental units at prices well below replacement costs.
Capital improvements	Increase the asset value of Mainstreet's portfolio by renovating acquired properties
Operational efficiencies	Minimize operating costs through professional management, efficient technology and energy-saving equipment
Value enhancement	Reposition renovated properties in the market, as a Mainstreet branded product, for higher rents, and maintain and build customer loyalty through high levels of service
Financing	Maintain a sound capital structure with access to capital markets
Divestitures	Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties

Source: Mainstreet Equity Corp., Canaccord Genuity

Renovations a key component of Mainstreet's strategy

Capital improvements are a key component of Mainstreet's value creation process. During Q3/20, Mainstreet spent $3.0 million on capital improvements, equal to approximately 28% of funds from operation (FFO) for the quarter. These expenditures can include exterior upgrades such as new roofs and windows, in addition to mechanical and other interior upgrades such as new flooring and paint. In total, repositioning of newly acquired assets is largely completed within six to 24 months. Mainstreet expects to spend approximately $16.0 million ($5.0 million remaining) throughout 2020 on these upgrades

Figure 4: Vintage Squared, Calgary

Source: Mainstreet Equity Corp.

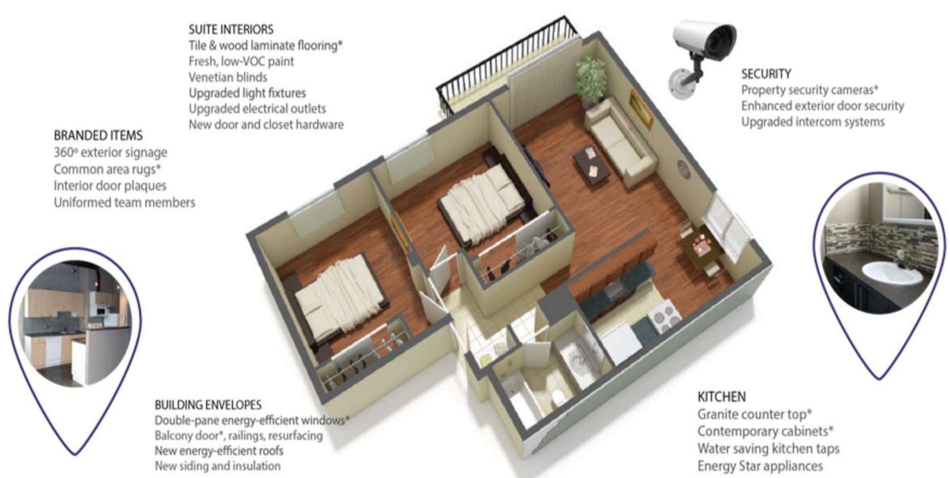
Figure 5: Mainstreet Tower, Edmonton

Source: Mainstreet Equity Corp.

Mainstreet's vertically integrated repositioning process, including the direct sourcing of most materials from suppliers in China, allows the company to lower renovation costs and improve margins

Importantly, this process is vertically integrated, with Mainstreet having internalized the sourcing of materials and management of construction crews. Most materials come directly from suppliers in China, therefore reducing mark-ups from intermediaries. This allows Mainstreet to lower costs and improve margins and gives the company more control over the repositioning process.

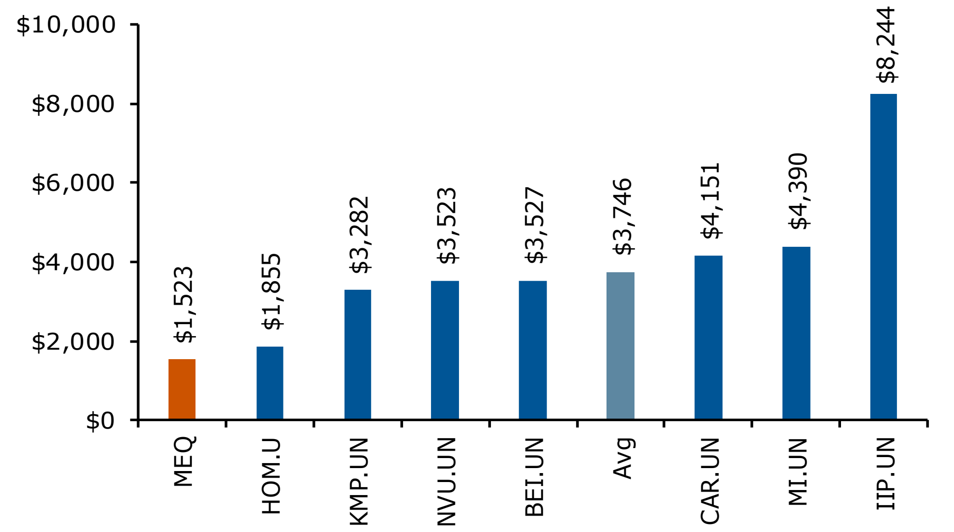
Figure 6: The Mainstreet 'Spec'



Source: Mainstreet Equity Corp.

Notwithstanding Mainstreet's strategy of upgrading and repositioning its suites, capital expenditures tend to be lower than those of its Canadian apartment peers. This is, in large part, due to the types of buildings that Mainstreet owns and operates (typically low-rise buildings with no elevators, underground parking, or shared amenities). In fiscal 2019, Mainstreet spent approximately $1,500 per suite, the lowest among its peer group, for which capital expenditures (inclusive of both sustaining and value-add capex) were, on average, $3,700 per suite.

Figure 7: Capital expenditures* per suite (fiscal 2019)



*Includes both value-add and sustaining capital expenditures
Source: REIT Reports, Canaccord Genuity

Stabilization represents significant potential upside

Management estimates that upon stabilization of its entire portfolio, which includes increasing occupancy and marking rents to market upon tenant turnover, the company could generate a potential increase in revenue of nearly $29 million

Currently, approximately 10% of Mainstreet's suites are in its unstabilized portfolio; these are underperforming assets acquired over the past two to three years. Given Mainstreet's value-add acquisition strategy, these suites typically feature higher vacancy and lower rents compared to its stabilized portfolio. As such, management estimates that upon stabilization of its entire portfolio and marking rents to market upon tenant turnover, the company could generate a potential increase in revenue of nearly $29 million (~$20 million from its stabilized portfolio and ~$9 million from its unstabilized portfolio).

Figure 8: Potential for revenue lift from Mainstreet's stabilized portfolio*

	Stabilized properties				Potential rev.
Market	# of units	Net rent	Occupancy	Est. mkt rent	lift (000s)
Surrey	1,775	$1,120	99.8%	$1,410	$6,166
Abbotsford	976	$970	99.9%	$1,126	$1,825
Calgary	2,315	$1,084	93.1%	$1,213	$3,404
Edmonton	4,285	$940	90.2%	$1,038	$4,787
Saskatoon	1,788	$886	87.3%	$1,025	$2,833
Regina	865	$907	91.1%	$1,009	$1,006
	12,004	$986	92.6%	$1,130	$20,022

*Assumes 5% vacancy rate
Source: Mainstreet Equity Corp., Canaccord Genuity

Figure 9: Potential for revenue lift from Mainstreet's unstabilized portfolio*

	Unstabilized properties				Potential rev.
Market	# of units	Net rent	Occupancy	Est. mkt rent	lift (000s)
Surrey	0	NA	NA	NA	$0
Abbotsford	48	$1,110	93.8%	$1,517	$231
Calgary	508	$1,092	94.5%	$1,218	$1,351
Edmonton	276	$1,092	86.9%	$1,239	$3,065
Saskatoon	538	$767	81.0%	$1,009	$3,649
Regina	1	$825	NA	$1,150	$370
	1,371	$923	87.3%	$1,149	$8,665

*Assumes 5% vacancy rate
Source: Mainstreet Equity Corp., Canaccord Genuity

Operational efficiencies generate healthy margins

Along with major upgrades, Mainstreet takes measures to create operating efficiencies at its properties. The following are some examples of expense reduction initiatives Mainstreet undertakes:

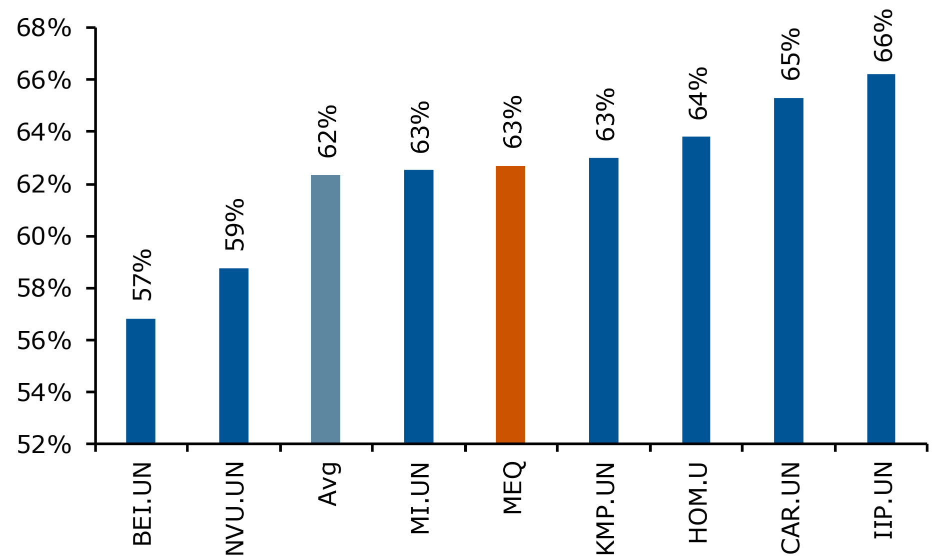
- The installation of energy-saving water flow devices, which has generated savings of, on average, 40%;

- The installation of LED lights (9 watt vs 60 watt), which has generated savings of, on average, 30%; and,
- Achieving economies of scale through fixed price gas contracts and bulk purchasing discount for construction supplies.

In addition, to offset the challenge of operating smaller properties, Mainstreet deploys a clustering strategy in its core markets (i.e. acquiring properties located near existing assets) and therefore benefits from economies of scale in those geographies. In Edmonton, for example, Mainstreet owns 132 properties.

As a result, Mainstreet is able to generate margins that are comparable with peers. In fiscal 2019, Mainstreet's NOI margin was 63%; this compares to its Canadian-listed multi-family peers, which had an NOI margin of, on average, 62% over the same period.

Figure 10: NOI margins for MEQ and its Canadian residential peers (fiscal 2019)



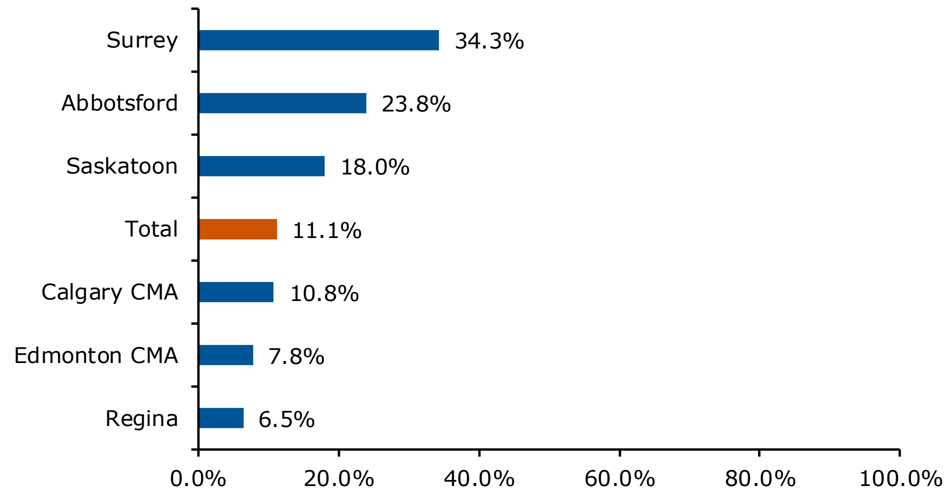
Source: REIT Reports, Canaccord Genuity

Limited competition should allow for consolidation of market share

The 'mid-market' (<100 suites per building) in which Mainstreet operates is dominated by fragmented, mom-and-pop ownership who typically have limited access to capital. Further, management estimates that mid-market properties represent approximately 75% of the total rental universe in Mainstreet's target markets. With limited competition, this presents the company with significant opportunity to further consolidate market share.

As of Q3/20, Mainstreet's portfolio of 13,375 (currently 13,579) units represented an approximate 11.1% market share in the geographies in which it operates. Lowest among these is in Regina (6.5%), Edmonton (7.8%) and Calgary (10.8%), where Mainstreet has the most opportunity for consolidation of market share.

Figure 11: Mainstreet's market share in each segment



Source: Mainstreet Equity Corp., Canaccord Genuity

Long-term opportunity for redevelopment potential

In our view, the densification of under-utilized properties into high-rise condo or purpose-built rentals represents significant long-term potential. We do not believe the market is ascribing any value to Mainstreet for this potential

Mainstreet's portfolio primarily comprises low-rise buildings (typically around three storeys), many of which are well-located in or near urban markets such as Vancouver/Lower Mainland BC, inner-city Calgary, and the "Ice District" in downtown Edmonton. In our view, the densification of under-utilized properties into high-rise condo or purpose-built rentals represents significant long-term redevelopment potential. We do not believe the market is ascribing any value to Mainstreet for this potential given the likely long time frame required to fully realize it.

In 2018, Mainstreet commissioned an infill opportunity analysis to examine the (re)development potential of a number of its properties in Surrey. As an example, we highlight **Ashley Court** and **Greenwood Gardens**. The two properties collectively comprise 333 units (a mix of one-, two- and three-bedroom suites) with total square footage of ~340,000. The third-party consultant found that the properties were underbuilt compared to the existing zoning. Specifically, they found that the properties had the potential for approximately 1.4 million sf of density, an increase of over four times.

Figure 12: Bird's eye view of Ashley Court and Greenwood Gardens, Surrey, BC

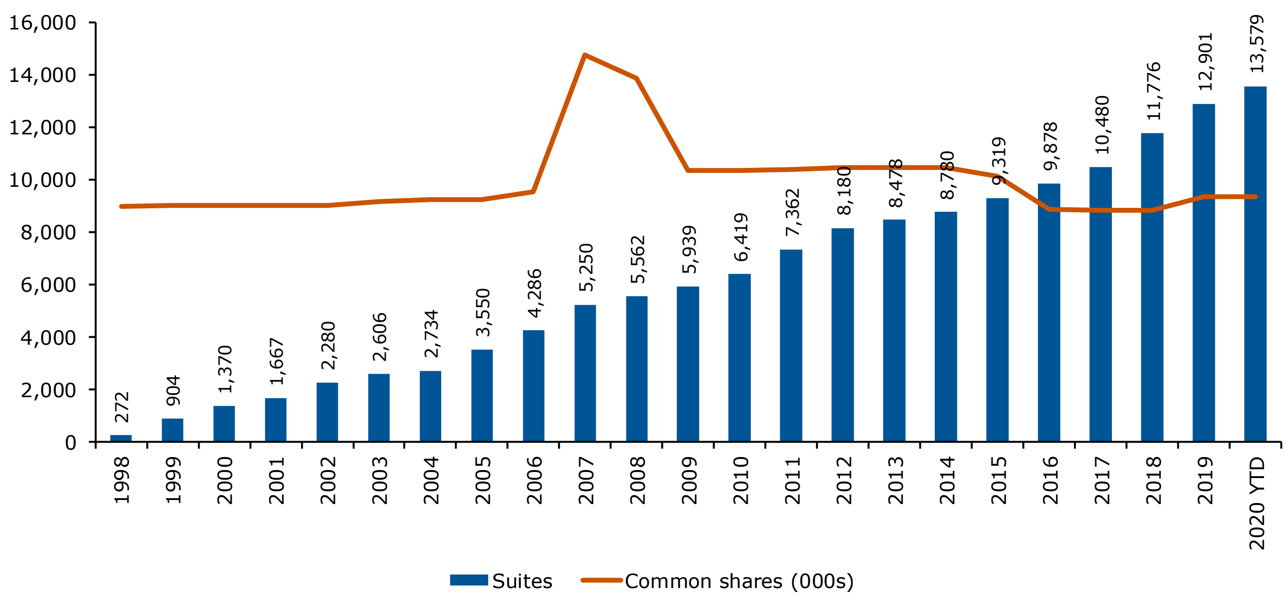
Source: Mainstreet Equity Corp.

Company history

Mainstreet was incorporated in 1997 and was listed on the TSX in 2000. Since inception, its portfolio has grown from 272 units to 13,579 units currently, representing a CAGR of ~20%.

Notably, this portfolio growth has come with little to no equity dilution over the years. Mainstreet currently counts approximately 9.3 million shares outstanding, up only slightly from ~9.0 million in 1998.

Figure 13: Mainstreet's portfolio has grown at a ~20% CAGR over the last 20 years with nearly no equity dilution



Source: Mainstreet Equity Corp., Canaccord Genuity

Acquisitions

Mainstreet continues to be active on the acquisition front, having acquired over 190 properties since the beginning of 2012, totaling 6,900 suites. The properties acquired are usually small to medium in size and comprise, on average, 33 suites per property. In addition, the average price per door is only $107,000, well-below replacement cost.

Figure 14: Acquisitions by fiscal year*

Year	Properties acquired	Suites	Avg price per suite ($000s)
2012	31	833	96
2013	17	702	100
2014	19	562	99
2015	4	535	96
2016	10	583	97
2017	12	601	109
2018	65	1,296	115
2019	33	1,119	115
2020 YTD	NA	678	132
Total/Avg	**>191**	**6,909**	**107**
Avg suite count		**~33**	

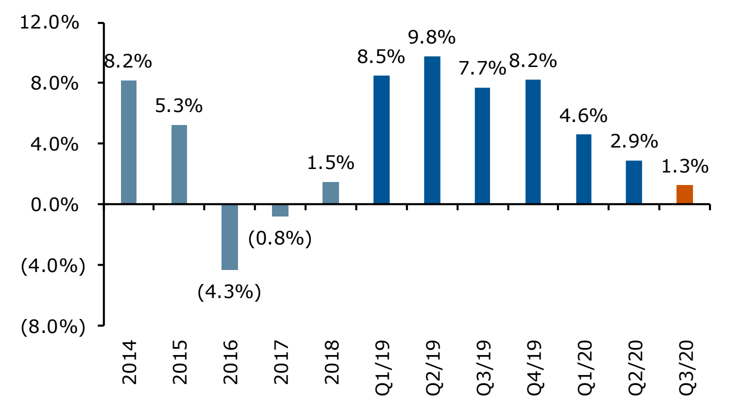
*Mainstreet's fiscal year ends on September 30 of each respective year
Source: Mainstreet Equity Corp., Canaccord Genuity

Value creation strategy has translated to solid growth in key metrics

Mainstreet's process of acquiring properties operating below their full potential and repositioning them, has led to healthy growth in a number of key metrics. The company's same-property average monthly rent (AMR) has grown at an annual rate of, on average, 3.0% since 2014. On a quarterly basis since the beginning of 2019, same-property AMR has grown at a rate of, on average, 6.1%.

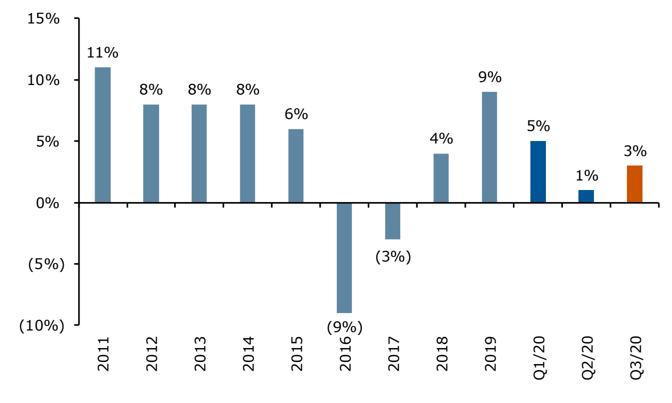
The solid AMR growth has translated to healthy same-property NOI growth, which has grown at an annual rate of, on average, 4.7% since the beginning of 2011.

Figure 15: Mainstreet's historical SP AMR growth



Source: Mainstreet Equity Corp., Canaccord Genuity

Figure 16: Mainstreet's historical SPNOI growth



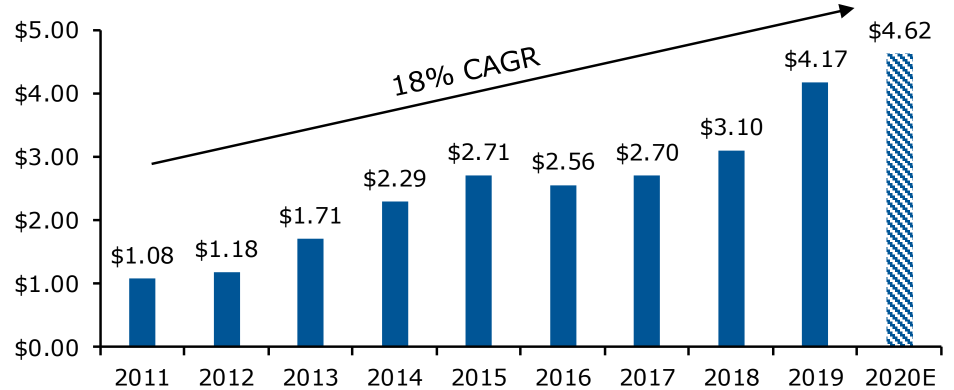
Source: Mainstreet Equity Corp., Canaccord Genuity

Over the last nine years, Mainstreet has grown FFO per share at a CAGR of 18%

This, in turn, has resulted in significant growth in FFO per share. Over the last nine years, Mainstreet has grown FFO per share from $1.08 to $4.62 (CG's 2020 estimate), representing a CAGR of 18%. In particular, FFO per share was up 35% year-over-year in 2019, boosted by a drop in vacancy from 9.9% in 2018 to 5.8%

in 2019 as the Alberta rental market gradually recovered from the previous downturn.

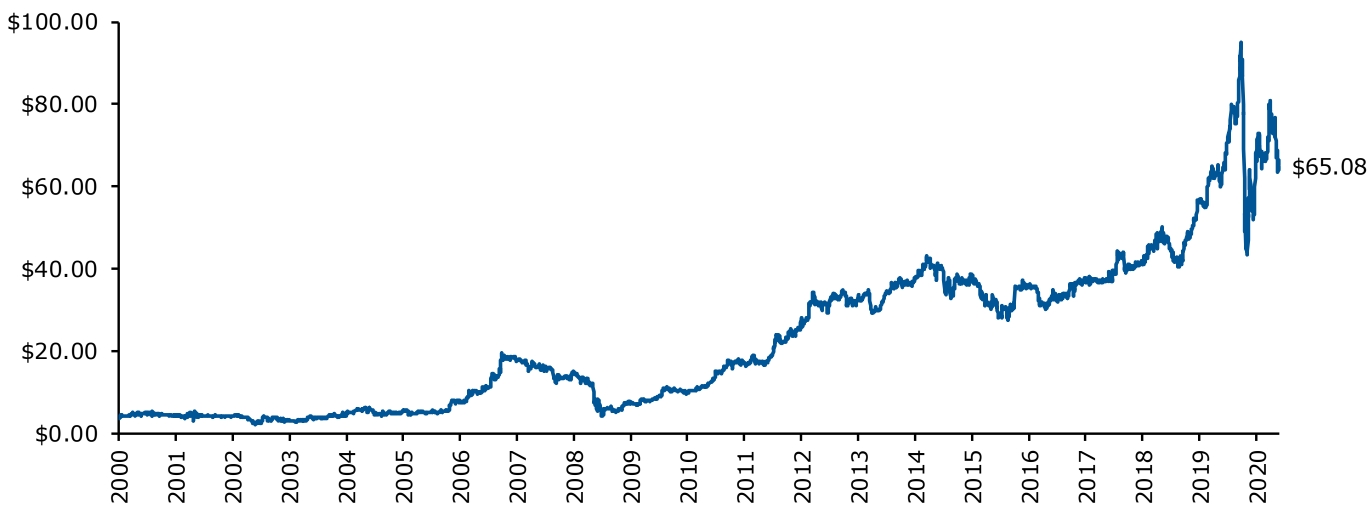
Figure 17: Historical FFO per share



Source: Mainstreet Equity Corp., Canaccord Genuity

Since Mainstreet began trading on the TSX in 2000, its share price has increased from $3.60 to $65.08, representing a compounded annual total return of ~15%. Mainstreet has significantly outperformed the S&P/TSX Composite and the S&P/TSX Capped REIT Index, which generated compounded annual total returns of ~3%, and ~8%, respectively, over the same period.

Figure 18: Mainstreet's stock price performance



Source: FactSet, Canaccord Genuity

Market overview

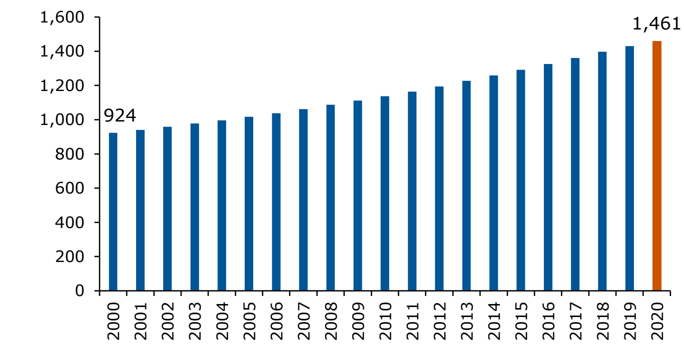
The economy in Western Canada, being heavily resource dependent, has faced mounting headwinds over the last several months, struggling amid low oil prices and the economic impacts from COVID-19. That being said, we note that Mainstreet's portfolio caters to the more affordable end of the rental market, and therefore, we believe will be less impacted by employment swings within the resource sector and benefit from the return of immigration once border restrictions ease.

Edmonton

Population growth has been very strong in Edmonton since Mainstreet was first listed on the TSX in 2000. The Alberta capital's population has grown at a cumulative rate of 58%, and is now nearly 1.5 million, up from 924,000 in 2000.

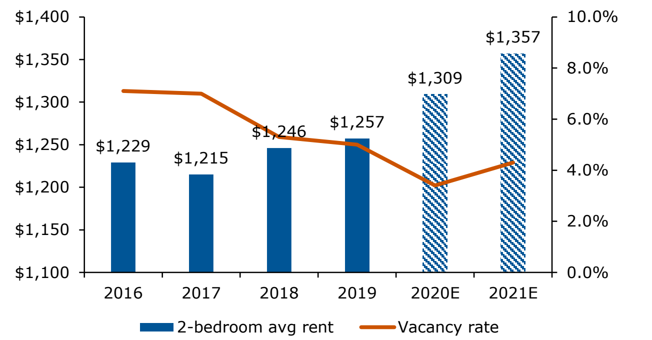
In its most recent Housing Market Outlook, CMHC forecasts rising rental rates and falling vacancy in Edmonton. As of the fall of 2019, CMHC forecasted that the average 2-bedroom rental rate will rise to $1,357 in October 2021, up from $1,257 in October 2019, equating to an annualized growth rate of 4%.

Figure 19: Edmonton historical population growth



Source: Macro Trends, Canaccord Genuity

Figure 20: Edmonton historical and forecast[1] rental rate growth and vacancy rate[2]



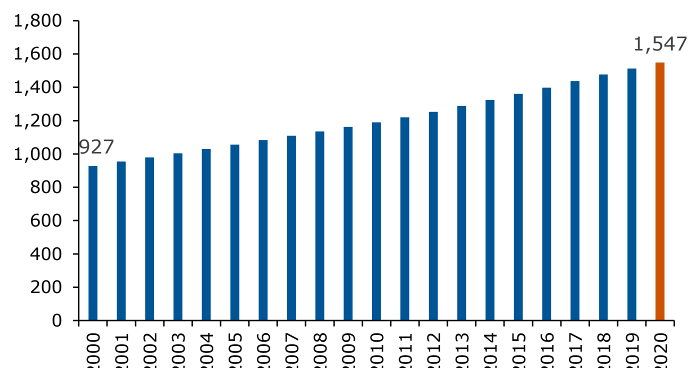
1. Forecasts made as of October 2019
2. Represents average 2-bedroom rental rate and vacancy as of October of each year

Source: CMHC, Canaccord Genuity

Calgary

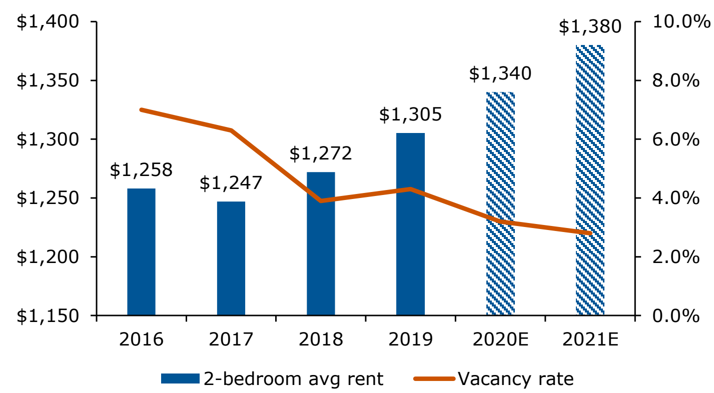
Since 2000, Calgary's population has grown 67% cumulatively, from 927,000 to approximately 1.6 million. In addition, CMHC forecasts that the average 2-bedroom rental rate will rise to $1,380 in October 2021, up from $1,305 in October 2019, equating to an annualized growth rate of 3%.

Figure 21: Calgary historical population growth



Source: Macro Trends, Canaccord Genuity

Figure 22: Calgary historical and forecast[1] rental rate growth and vacancy rate[2]



1. Forecasts made as of October 2019
2. Represents average 2-bedroom rental rate and vacancy as of October of each year

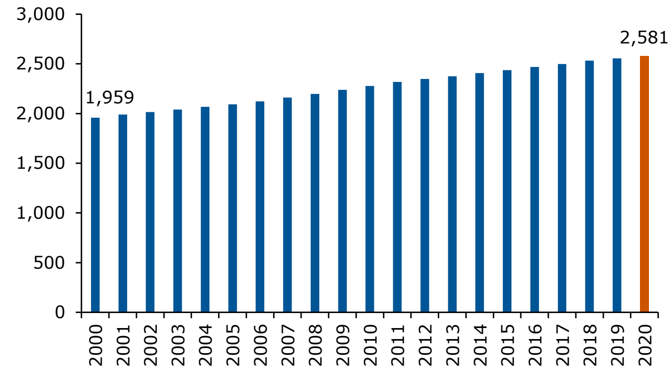
Source: CMHC, Canaccord Genuity

Vancouver/Lower Mainland, BC

Since 2000, Vancouver's population has grown 32% cumulatively, from approximately 2.0 million to 2.6 million. In addition, CMHC forecasts that the average 2-bedroom rental rate in Vancouver will rise from an estimated $1,715 in

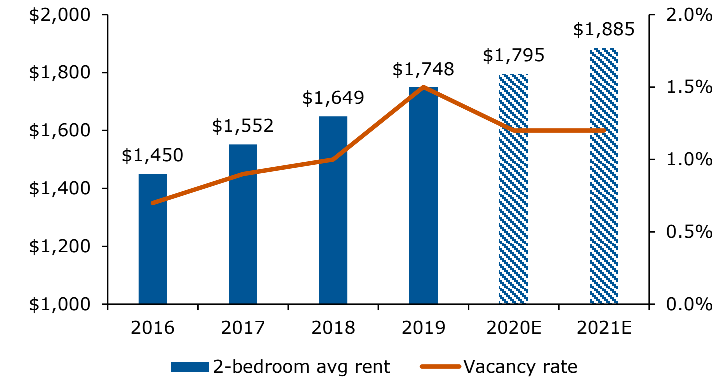
October 2019 to $1,885 in October 2021, equating to an annualized growth rate of 5%.

Figure 23: Vancouver historical population growth



Source: Macro Trends, Canaccord Genuity

Figure 24: Vancouver historical and forecast[1] rental rate growth and vacancy rate[2]

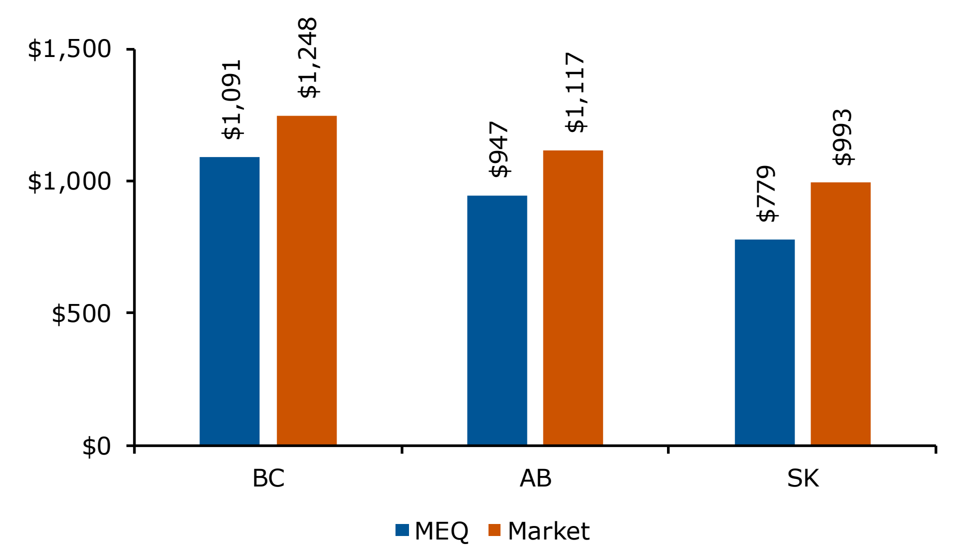


1. Forecasts made as of October 2019
2. Represents average 2-bedroom rental rate and vacancy as of October of each year
Source: CMHC, Canaccord Genuity

Affordability should continue to attract tenants to Mainstreet's properties

Relative to the average rents of the markets in which it operates, Mainstreet's properties allow tenants an affordable place to live. In each of the provinces in which Mainstreet operates, its average monthly rents are below market rents estimated by CMHC, as depicted in the chart below.

Figure 25: Average monthly rents in Mainstreet's portfolio and in its geographic markets*

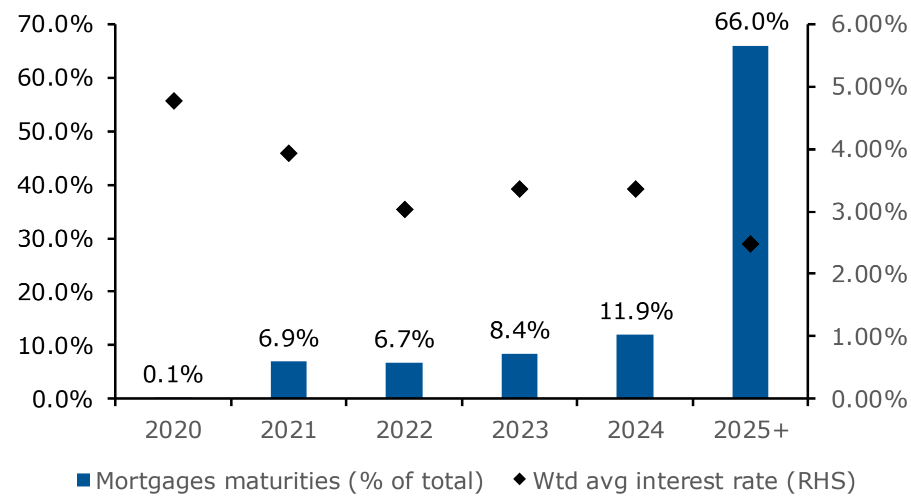


*Market figures represent CMHC estimates as of October 2018
Source: Mainstreet Equity Corp., CMHC, Canaccord Genuity

Capital structure

Mainstreet's debt features primarily long-term, fixed-rate, CMHC-insured debt. As of Q3/20, approximately 95% of the company's mortgage portfolio was CMHC-insured, providing the company with lower interest rates than those available through conventional financing. We understand that currently, 10-year CMHC-insured fixed rate debt is approximately 1.6%. In addition, Mainstreet's weighted-average term to maturity for its mortgage loans is seven years.

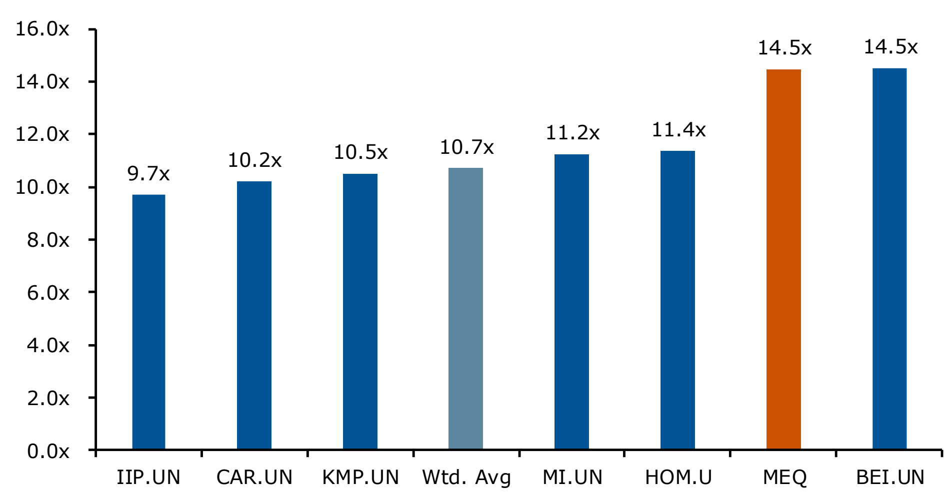
Figure 26: Mainstreet Equity Corp mortgage maturity schedule



Source: Mainstreet Equity Corp., Canaccord Genuity

Mainstreet's debt-to-gross book value (D/GBV) and debt-to-EBITDA of 53% and ~14.5x, respectively, is higher relative to its Canadian-listed multi-family peers. However, assuming Mainstreet's portfolio was fully stabilized, we estimate that the company's debt-to-EBITDA ratio would decline from 14.5x to 12.9x.

Figure 27: Debt-to-EBITDA for Mainstreet and comparable residential REITs/REOCs



Source: Mainstreet Equity Corp., Canaccord Genuity

Mainstreet features significant insider ownership, at 49.1%. Bob Dhillon alone represents 46.2% of the ownership interest, which we believe demonstrates management's long-term commitment to the success of the company and strengthens alignment between management and shareholders.

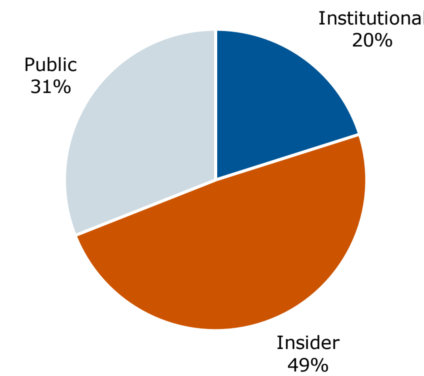
In addition, institutional ownership is 20%, which we believe is a testament to the company's long-term track record, and strong governance.

Figure 28: Summary of insider ownership for Mainstreet

Top insiders	Ownership %
Bob Dhillon	46.2%
Karanveer Dhillon	2.0%
Richard Grimaldi	0.4%
Johnny Lam	0.2%
Joseph Amantea	0.2%
Others*	0.1%
Total	**49.1%**

*Others includes Ron Anderson, John Irwin, and Sheena Keslick
Source: FactSet, Canaccord Genuity

Figure 29: Mainstreet ownership breakdown



Source: FactSet, Canaccord Genuity

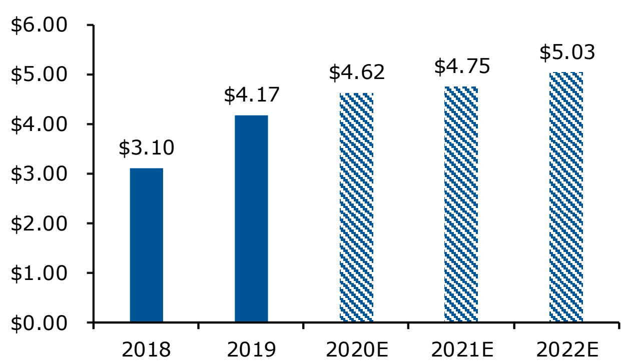
Financial forecasts

Our financial forecasts for Mainstreet are reflective of the company's inherent revenue lift upon stabilizing assets, cautious near-term rental market outlook in its core geographies, and external growth opportunities. We highlight our key assumptions below:

- No rental rate growth through to 2022;
- An occupancy rate of 92% through to 2022;
- Modest NOI margin expansion of 50 bps year-over-year; and,
- Acquisitions of $80 million annually, financed entirely with mortgage debt

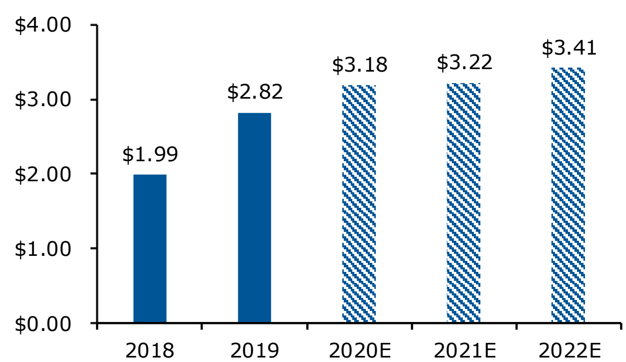
As a result, we forecast modest growth in cash flow per share over the next two years. For 2021, we forecast FFO per share of $4.75 and for 2021, $5.03, representing growth of 2.8% and 5.9%, respectively.

Figure 30: CG's FFO per share estimates for Mainstreet Equity Corp.



Source: Mainstreet Equity Corp., Canaccord Genuity estimates

Figure 31: CG's AFFO per share estimates for Mainstreet Equity Corp.



Source: Mainstreet Equity Corp., Canaccord Genuity estimates

Figure 32: CG's estimates for Mainstreet Equity Corp.

(Diluted)	2018	2019	2020E	2021E	2022E
FFO Per Share	$3.10	$4.17	$4.62	$4.75	$5.03
AFFO Per Share	$1.99	$2.82	$3.18	$3.22	$3.41

Source: Mainstreet Equity Corp., Canaccord Genuity

Net asset value

We utilize a cap rate estimate of 5.25% in deriving our NAV estimate. This is approximately equal to the weighted average of CBRE's cap rate estimates for low rise B apartment buildings in Mainstreet's core markets. According to CBRE, the average cap rates for Q2/20 were:

- in Vancouver, 3.75%;
- in Edmonton, 5.75%;
- in Calgary, 5.38%; and,
- in Saskatoon, 6.25%.

Figure 33: Cap rate estimate for Mainstreet Equity Corp.

	Q3/20 NOI		
Province	**($)**	**% of total**	**Cap rate**
British Columbia	6,740	28.7%	4.0%
Alberta	12,779	54.4%	5.5%
Saskatchewan	3,992	17.0%	6.5%
Total	**23,511**	**100.0%**	**5.24%**

Source: Mainstreet Equity Corp., CBRE, Canaccord Genuity

Applying a 5.25% cap rate to our forecasted stabilized NOI, and giving zero value to the company's long-term redevelopment potential, our NAV estimate is $90.75 per share. Sensitivity to our net operating income and cap rate estimates is shown in Figure 34.

Figure 34: NAV estimate and sensitivity analysis for Mainstreet Equity Corp.

NAV Analysis	C$000s
Stabilized NOI	$104,296
CG Applied Cap Rate	5.25%
Gross Property Value	**$1,986,581**
Other Assets (Liabilities)	$218
Total Assets	**$1,986,799**
Net Debt	($1,139,124)
Net Asset Value	**$847,675**
Units Outstanding (Diluted)	9,350
Net Asset Value Per Unit	**$90.75**
Unit Price	$65.08
Premium (Discount) to NAV	(28.3%)
Implied Cap Rate	6.0%
Implied Price Per Suite	$129,000

NAV/Unit Sensitivity - Change in FTM NOI

Cap Rate	3.0%	2.0%	1.0%	0.0%	(1.0%)	(2.0%)	(3.0%)
4.50%	$133.50	$131.00	$128.50	$126.00	$123.50	$121.00	$118.75
4.75%	$120.00	$117.75	$115.50	$113.00	$110.75	$108.25	$106.00
5.00%	$108.00	$105.75	$103.50	$101.25	$99.00	$96.75	$94.50
5.25%	$97.00	$95.00	$92.75	$90.75	$88.50	$86.50	$84.25
5.50%	$87.00	$85.00	$83.00	$81.00	$79.00	$77.00	$75.00
5.75%	$78.00	$76.00	$74.25	$72.25	$70.25	$68.25	$66.25
6.00%	$69.75	$67.75	$66.00	$64.00	$62.25	$60.50	$58.50

Premium (Discount) to NAV Sensitivity - Change in FTM NOI

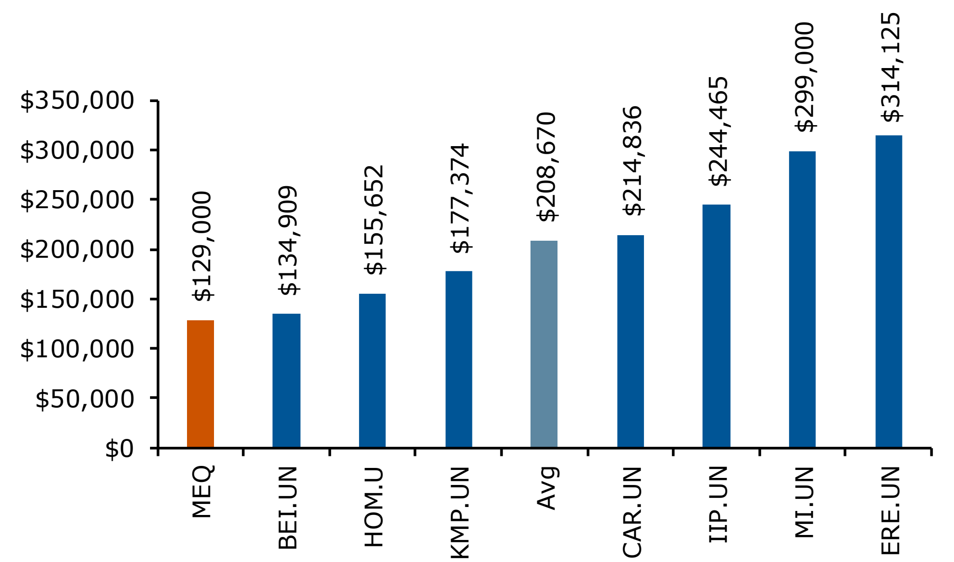
Cap Rate	3.0%	2.0%	1.0%	0.0%	(1.0%)	(2.0%)	(3.0%)
4.50%	(51%)	(50%)	(49%)	(48%)	(47%)	(46%)	(45%)
4.75%	(46%)	(45%)	(44%)	(42%)	(41%)	(40%)	(39%)
5.00%	(40%)	(38%)	(37%)	(36%)	(34%)	(33%)	(31%)
5.25%	(33%)	(31%)	(30%)	(28%)	(26%)	(25%)	(23%)
5.50%	(25%)	(23%)	(22%)	(20%)	(18%)	(15%)	(13%)
5.75%	(17%)	(14%)	(12%)	(10%)	(7%)	(5%)	(2%)
6.00%	(7%)	(4%)	(1%)	2%	5%	8%	11%

Source: Mainstreet Equity Corp., Canaccord Genuity estimates

Valuation

Price per door. Mainstreet currently trades at an implied price per door of $129,000, among the lowest of its peer group, which trades at an implied price per door of, on average, $209,000.

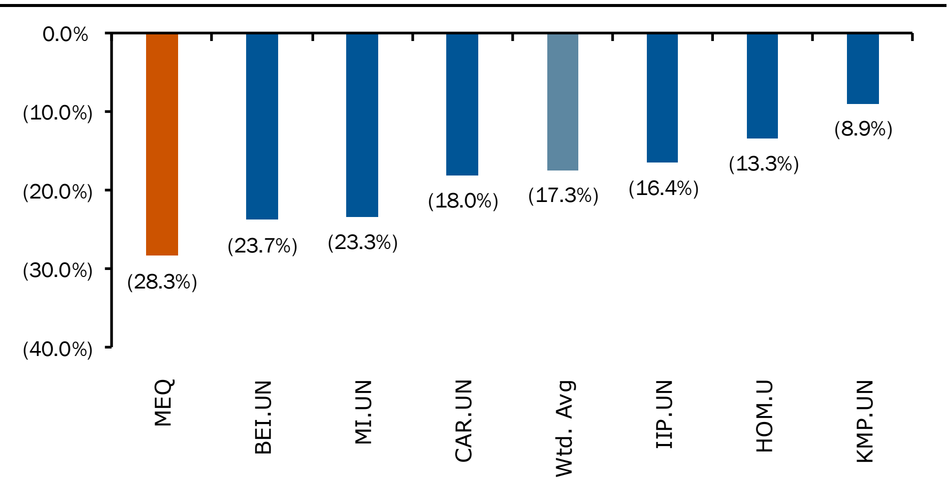
Figure 35: Price per door for Mainstreet and comparable REITs



Source: REIT Reports, Canaccord Genuity estimates

Price to NAV. Mainstreet's shares currently trade at an implied cap rate of 6.0%, or at a 28.3% discount to our NAV per share estimate. This compares to a weighted-average discount of 17.3% for the Canadian-listed multi-family universe.

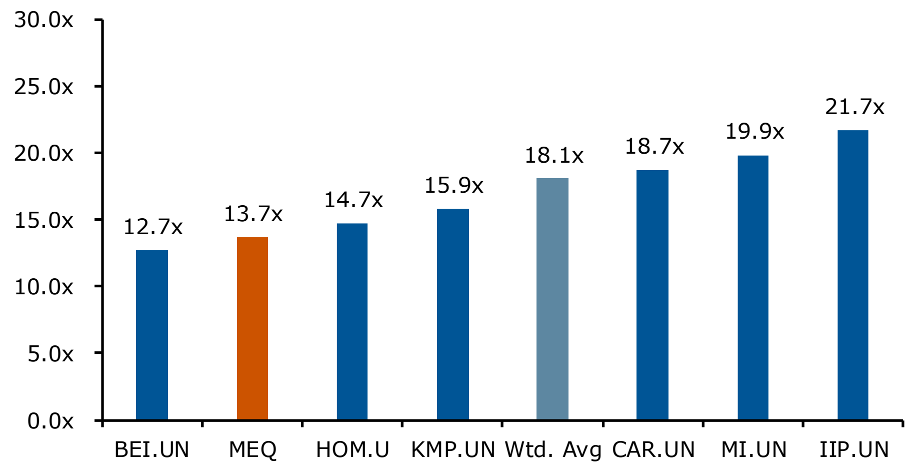
Figure 36: Premium (discount) to NAV for Mainstreet and comparable REITs



Source: FactSet, Canaccord Genuity estimates

Price to FFO. On a cash flow multiple basis, Mainstreet's shares currently trade at 13.7x 2021E FFO per share, as compared to 18.1x for Canadian-listed multi-family REITs/REOCs.

Figure 37: 2021E FFO multiples for Mainstreet and comparable REITs/REOCs



Source: FactSet, Canaccord Genuity estimates

Figure 38: Comp table for Mainstreet Equity Corp.

REIT/REOC	Ticker	Price 26-Oct-20	Equity market cap (C$M)	Annual dist/ div	Current yield	Implied cap rate	NAV per unit/ share	Prem/ (disc) to NAV	Diluted FFO per unit/share 2020E	Diluted FFO per unit/share 2021E	FFO multiple 2020E	FFO multiple 2021E	AFFO payout ratio 2020E	AFFO payout ratio 2021E
Boardwalk	BEI.UN	$27.27	$1,269	$1.00	3.7%	5.7%	$35.75	(23.7%)	$2.52	$2.14	10.8x	12.7x	40%	47%
BSR REIT	HOM.U	$9.97	$584	$0.50	5.0%	6.1%	$11.50	(13.3%)	$0.60	$0.68	16.7x	14.7x	84%	74%
CAP	CAR.UN	$43.56	$7,464	$1.38	3.2%	4.5%	$53.11	(18.0%)	$2.24	$2.32	19.5x	18.7x	62%	59%
InterRent	IIP.UN	$11.80	$1,672	$0.31	2.6%	4.8%	$14.11	(16.4%)	$0.47	$0.54	25.1x	21.7x	66%	57%
Killam	KMP.UN	$16.82	$1,798	$0.68	4.0%	5.0%	$18.46	(8.9%)	$1.01	$1.06	16.7x	15.9x	68%	64%
Minto REIT	MI.UN	$16.88	$997	$0.44	2.6%	4.4%	$22.00	(23.3%)	$0.84	$0.85	20.2x	19.9x	53%	52%
Mainstreet Equity	**MEQ**	**$65.08**	**$608**	**NA**	**NA**	**6.0%**	**$90.75**	**(28.3%)**	**$4.62**	**$4.75**	**14.1x**	**13.7x**	**NA**	**NA**
Total/Wtd Avg			**$14,393**		**3.3%**	**4.8%**		**(17.3%)**			**18.9x**	**18.1x**	**61%**	**59%**

Source: REIT Reports, Canaccord Genuity estimates

Rating and investment thesis

Initiating coverage with a BUY rating and a $91.00 target price

We believe Mainstreet, which does not pay a dividend, is attractive for investors seeking long-term capital appreciation. We attribute this to Mainstreet's unique strategy of value creation through the acquisition and repositioning of underperforming assets, its exposure to a needs-driven sector, and its experienced management team that shares a high degree of alignment (through ownership) with shareholders.

We like the multi-family asset class given the defensive nature of cash flows and return profile through economic cycles. This defensiveness has been further evidenced throughout the COVID-19 pandemic, in which the apartment sector has posted some of the strongest rent collection results.

Mainstreet's shares currently trade at an implied cap rate of 6.0%, or a 28.3% discount to NAV. On a cash flow multiple basis, Mainstreet trades at 13.7x 2021E FFO.

Our $91.00 target price is set in line with our NAV estimate and equates to approximately 19.2x 2021 FFO per share. We believe Mainstreet's shares should trade in-line with NAV given the company's inherent NOI growth within the company's existing portfolio (achieved through stabilization of suites) and the company's proven ability to grow NAV and cash flow per share over long periods. Our target price implies a one-year total return of 39.8%. We are initiating coverage of Mainstreet with a BUY rating.

Investment Risks

As with all REITs/REOCs, impediments to Mainstreet achieving our target price include, but are not limited to, risks associated with investments in real property such as local and general economic conditions, competition for tenants, new supply, changes in interest rates and market rents, financial leverage and credit risk associated with tenant leases.

Mainstreet is subject to the following risks:

Real property ownership risk. Real estate ownership is capital intensive and requires ongoing maintenance and investment. In order to fund capital requirements with operating income, occupancy and rental rates must be maintained, and costs kept in line. These factors are subject to general economic conditions which affect supply, demand, and availability of debt and equity capital necessary to execute the company's strategy.

Redevelopment/development risk. Redevelopment/development projects may be subject to delays at all stages of the redevelopment/development process, including planning, approvals, and construction. Risks related to cost overruns or leasing could also adversely affect the projected cash flow from the redevelopment/development.

Interest rate risk. A significant proportion of Mainstreet's portfolio is debt financed and interest expense is a significant cost for the company. An increase in interest rates would cause Mainstreet's interest expense to rise. Interest expense would rise immediately for floating rate debt. Changes in interest rates are also likely to have an immediate impact on cap rates, which have significant implications on the company's value.

Refinancing risk. Mainstreet relies on the credit market to refinance debt as it comes due. A lack of availability of debt and/or adverse terms of renewal would negatively impact the company's ability or cost to refinance its debt. Mainstreet seeks to reduce its refinancing risk through securing financing with comparatively longer terms and staggering the maturities of its debt.

Capital markets risk. There is no assurance that Mainstreet will be able to issue equity at terms which are acceptable to the company.

Change in economic outlook or condition. A weak economy could lead to a decline in residential real estate prices, which could put downward pressure on rental rates. Long-term economic weakness could slow population growth in regions Mainstreet operates in, which could impact its occupancy rate.

Tenant risk. A real estate owner's income is dependent on the financial health of its tenants and its ability to meet rent obligations. In the current environment, we understand that many Canadian multifamily tenants are reliant upon government support measures to help make rent payments. If and when such measures are scaled back, this could negatively impact fundamentals for multifamily real estate.

Competition from other residential operators. The company must compete for tenants with existing operators within each of its markets. Other operators may have a broader range of offerings within the company's markets or may be able to leverage a larger national presence and brand recognition to attract tenants.

New supply risk. To the extent that significant new supply is brought online without a proportionate growth in demand, market fundamentals could deteriorate.

Acquisition risk. The company may not be able to source suitable acquisitions in order to grow externally, and/or acquired properties may not meet expectations.

Rising input costs. An increase in the cost of wages, energy, maintenance, and other input costs would negatively impact margins and reduce profitability.

Lease rollover risk. A real estate landlord is subject to the risk that a tenant, upon lease maturity, may choose to leave the premises or renew the lease at less favourable terms to the landlord. In the case where a tenant elects to leave the property, the landlord may have difficulty replacing the tenant.

Reliance on key personnel. Mainstreet's success is reliant on the services of certain key personnel. Should any of its key personnel cease to provide services to the company, there could be an adverse impact on operations.

Environmental risk. Mainstreet may be subject to laws that govern environmental matters. The presence of hazardous substances could result in claims from tenants should they become exposed, and these claims could adversely affect the value of the affected property and/or the company's ability to sell it. Real estate owners could be liable for costs related to the removal of hazardous substances and the remediation of contaminated location.

Extraordinary events. Other events beyond Mainstreet's control could negatively impact its operations. For example, in the past, the 2008 financial crisis impacted access to capital, occupancy, and rental rates, etc.

Liquidity risk. With under 10 million shares outstanding, and insider ownership representing nearly 50% of total shares, Mainstreet's common stock is less liquid relative to many of its Canadian listed REIT/REOC peers.

Appendix 1: Forecast Model

Figure 39: Forecast income statement for Mainstreet Equity Corp.

(CDN$000s unless otherwise noted)	2018	2019	2020E	2021E	2022E
Revenue	$115,665	$137,613	$149,112	$156,067	$164,274
Operating Expenses	(43,444)	(51,305)	(55,640)	(57,437)	(59,637)
Net Operating Income	**72,221**	**86,308**	**93,473**	**98,631**	**104,637**
General and Administrative Expense	(10,925)	(12,463)	(12,997)	(14,046)	(14,785)
EBITDA	**61,296**	**73,845**	**80,476**	**84,585**	**89,852**
Interest Expense	(31,458)	(34,771)	(37,166)	(40,367)	(43,007)
Other Items	564	240	(52)	160	160
Funds From Operations	**30,402**	**39,314**	**43,257**	**44,378**	**47,005**
Maintenance Capex	(11,426)	(12,584)	(13,427)	(14,279)	(15,079)
Adjusted Funds From Operations	**18,976**	**26,730**	**29,831**	**30,099**	**31,926**
FFO Per Share (Diluted)	**$3.18**	**$4.17**	**$4.62**	**$4.75**	**$5.03**
AFFO Per Share (Diluted)	**$1.99**	**$2.86**	**$3.18**	**$3.22**	**$3.41**

Source: Canaccord Genuity estimates

Figure 40: Forecast balance sheet for Mainstreet Equity Corp.

(CDN$000s unless otherwise noted)	2018	2019	2020E	2021E	2022E
Assets					
Cash and Cash Equivalents	$384	$70	$32,579	$76,337	$122,723
Restricted cash	$3,120	$3,387	$3,309	$3,309	$3,309
Inventory	$684	$963	$1,470	$1,470	$1,470
Trade and other receivables	$824	$1,878	$1,998	$1,998	$1,998
Prepaid current income tax	$110	$110	$110	$110	$110
Prepaid assets	$1,952	$2,032	$3,036	$3,036	$3,036
Intangible assets	$143	$1,145	$1,390	$1,390	$1,390
Property, plant and equipment	$5,233	$6,389	$7,799	$7,799	$7,799
Investment properties	$1,865,897	$2,040,051	$2,113,196	$2,193,196	$2,273,196
Total Assets	**$1,878,347**	**$2,056,025**	**$2,164,887**	**$2,288,645**	**$2,415,031**
Liabilities					
Mortgages Payable	956,965	1,019,723	1,156,364	1,236,364	1,316,364
Bank indebtedness	1,858	56,442	0	0	0
Trade and other payables	6,798	8,911	10,835	10,835	10,835
Refundable security deposits	4,526	4,774	4,750	4,750	4,750
Deferred tax liabilities	158,639	165,870	162,489	162,489	162,489
Total Liabilities	**$1,128,786**	**$1,255,720**	**$1,334,438**	**$1,414,438**	**$1,494,438**
Equity	**$749,561**	**$800,305**	**$830,449**	**$874,207**	**$920,593**
Total Liabilities and Equity	**$1,878,347**	**$2,056,025**	**$2,164,887**	**$2,288,645**	**$2,415,031**

Source: Canaccord Genuity estimates

Appendix 2: Management Team

Bob Dhillon, Chief Executive Officer

Mr. Dhillon is the President, CEO & founder of Mainstreet. Mr. Dhillon currently sits on the Canadian Mortgage and Housing Corporation (CMHC) Board and is also the Honorary Consul General for Belize in Canada. Mr. Dhillon completed his MBA from the Richard Ivey School of Business at the University of Western Ontario in 1998.

Trina Cui, Chief Financial Officer

Ms. Cui joined Mainstreet in 2008 and has served in several roles specializing in fiscal oversight. Trina holds a CPA-CGA designation, received a Bachelor of Commerce (High Honours) degree from Carleton University, and a Master of Business Administration degree from Queen's University.

Johnny C.S. Lam, Chief Operating Officer

Mr. Lam joined Mainstreet as Chief Financial Officer when the company went public in 1998. A founding team member, Mr. Lam brings over 30 years of senior management experience in Asia, the UK, Australia, and North America. Before coming to Mainstreet, he served as VP of Finance and Administration at HB Media Holding Pte. Ltd. in Singapore. Mr. Lam holds a Bachelor of Commerce (Honours) degree from the University of Birmingham in the United Kingdom.

Appendix 3: Board of Directors

Joe Amantea is a senior associate with the law firm Warren Tettensor in Calgary, Alberta. Mr. Amantea has more than three decades of experience in real estate, multi-family acquisitions, construction law, foreclosures and corporate/commercial law, dealing mainly with small and medium-sized private companies. Mr. Amantea articled with Warren, Raymaker & Stewart (now known as Warren Tettensor Amantea LLP) in 1977 and was admitted to the Bar in 1978. He became a partner of the firm on February 1, 1982. Mr. Amantea acts as corporate counsel on real estate-related matters on behalf of Mainstreet.

Bob Dhillon, the President, CEO and founder, also sits on the Board of Directors. Additionally, Mr. Dhillon sits on the Canadian Mortgage and Housing Corporation (CMHC) Board and is the Honorary Consul General for Belize in Canada. Mr. Dhillon completed his MBA from the Richard Ivey School of Business at the University of Western Ontario in 1998.

Richard Grimaldi is a seasoned real estate executive with over 25 years of experience in senior roles in the real estate industry. He has held various positions in the Commercial Real Estate Division at GE Capital, including Managing Director of Institutional Accounts, Managing Director - Canadian Real Estate, and Managing Director - Large Transaction Group. He has extensive experience in financing public and private companies, structuring debt, equity and joint-venture new business opportunities. Mr. Grimaldi holds an MBA from the University of Miami.

Karanveer Dhillon is the CEO and Managing Director of Guggenheim Capital Management (Asia) and Head of Guggenheim's India operations. Guggenheim Capital is a leading investment management firm with over $100 billion under management. Prior to joining Guggenheim Partners in 2008, he was a partner at Thomas Weisel Partners (TWP). Mr. Dhillon led TWP's efforts in India by establishing its Mumbai office. During his career, Mr. Dhillon has established strong relationships with leading investment managers including AIM Funds, Chartwell Investment Partners, Morgan Stanley Asset Management, T. Rowe Price and Turner Investment Partners. In addition to Mainstreet, Mr. Dhillon sits on the Board of Directors of Pan Pacific Mercantile Group. He holds a bachelor's degree from the University of Calgary and an MBA from the Kellogg School of Management, Northwestern University.

John Irwin served previously as Chief Financial Officer (CFO), Chief Information Officer (CIO) and Vice President of the Richard Ivey School of Business. He was the project manager for the new $110 million Ivey Business School building and was a key player in Ivey's strategic initiatives. In addition to Mainstreet, Mr. Irwin previously was a member of the Board of Directors of Richard Ivey School of Business Foundation, Richard Ivey School of Business (Asia) Limited, RISB Ltd (Beijing), and the London Convention Centre. Mr. Irwin holds a bachelor's degree from Western University, as well as his CPA-CGA Designation.

Ron Anderson has over 30 years of experience in real estate finance, private equity, M&A and corporate and commercial banking in Western Canada. He ran the British Columbia operations of National Bank of Canada from 1986 to 1993. Tallinn Capital, which he founded in 1999, has offices in Vancouver and Calgary and manages two private mezzanine loan funds, one focused on real estate finance and the other focused on financing the mid-market corporate and junior oil & gas sectors. Mr. Anderson received his Certified General Accountant designation in 1987 and earned a Bachelor of Commerce from the University of British Columbia in 1979.

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: October 27, 2020, 19:58 ET

Date and time of production: October 27, 2020, 19:58 ET

Target Price / Valuation Methodology:

Mainstreet Equity Corp. - MEQ

Our target price is set in line with our NAV estimate.

Risks to achieving Target Price / Valuation:

Mainstreet Equity Corp. - MEQ

As with all REITs/REOCs, impediments to Mainstreet achieving our target price include, but are not limited to, risks associated with investments in real property such as local and general economic conditions, competition for tenants, new supply, changes in interest rates and market rents, financial leverage and credit risk associated with tenant leases.

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Rising input costs. An increase in the cost of wages, energy, maintenance, and other input costs would negatively impact margins and reduce profitability.

Lease rollover risk. A real estate landlord is subject to the risk that a tenant, upon lease maturity, may choose to leave the premises or renew the lease at less favourable terms to the landlord. In the case where a tenant elects to leave the property, the landlord may have difficulty replacing the tenant.

Reliance on key personnel. Mainstreet's success is reliant on the services of certain key personnel. Should any of its key personnel cease to provide services to the company, there could be an adverse impact on operations.

Environmental risk. Mainstreet may be subject to laws that govern environmental matters. The presence of hazardous substances could result in claims from tenants should they become exposed, and these claims could adversely affect the value of the affected property and/or the company's ability to sell it. Real estate owners could be liable for costs related to the removal of hazardous substances and the remediation of contaminated location.

Extraordinary events. Other events beyond Mainstreet's control could negatively impact its operations. For example, in the past, the 2008 financial crisis impacted access to capital, occupancy, and rental rates, etc.

Distribution of Ratings:

Global Stock Ratings (as of 10/27/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	546	62.83%	55.31%
Hold	162	18.64%	40.12%
Sell	9	1.04%	33.33%
Speculative Buy	130	14.96%	78.46%
	869*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx

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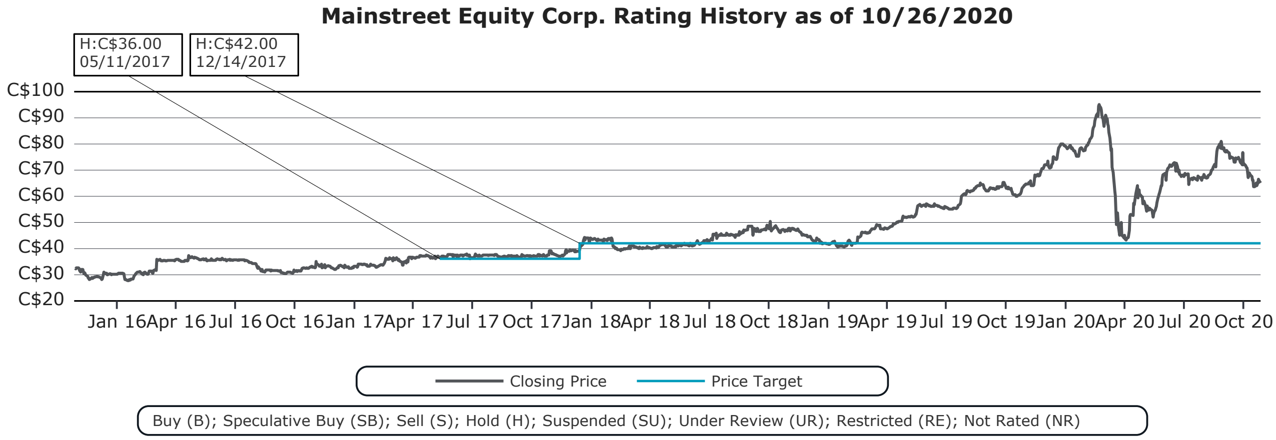

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