



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 ~15,000 suites.



Source: BigCharts.com

Market and Company Data

Ticker	MEQ-T	Shares O/S (M)	9.3
Rating	Buy	Market Cap (M)	\$1,128
Risk	Medium	Debt (M)	\$1,357
Price	\$120.70	Enterprise Value (M)	\$2,485
1-Yr Target	\$140.00	Avg. Daily Volume (K)	0.94
Dividend	\$0	AFFO Payout Ratio	NA
Div. Yield	0%	2022 Debt to EBITDA	13.9x
1-Yr ROR	16%	Debt to GBV	51%
52 Wk Hi-Lo	\$120.00-71.70	NAV	\$108
Year End	Sep-30	Cap Rate	5.1%
Next Reporting	Mar-'22	Price / NAV	112%
Valuation	15% Premium to NAV, 5-yr DCF		

Funds From Operations (FFO) per share

	Q1	Q2	Q3	Q4	Annual	P/FFO
2020A	\$1.20 A	\$0.97 A	\$1.17 A	\$1.32 A	\$4.66 A	25.9x
F2021A	\$1.21 A	\$1.08 A	\$1.29 A	\$1.50 A	\$5.08 A	23.7x
F2022E	\$1.39	\$1.40	\$1.62	\$1.78	\$6.19	19.5x

Adjusted Funds From Operations (AFFO) per share

	Q1	Q2	Q3	Q4	Annual	P/AFFO
2020A	\$0.89 A	\$0.65 A	\$0.85 A	\$1.00 A	\$3.38 A	35.7x
F2021A	\$0.88 A	\$0.75 A	\$0.93 A	\$1.14 A	\$3.69 A	32.7x
F2022E	\$1.03	\$1.03	\$1.26	\$1.42	\$4.74	25.5x

All figures in Canadian dollars unless specified otherwise

In-line Q4/F21; YoY FFO/Share Growth Continues; Increasing Target to \$140

Our take - stock with a cult following: Mainstreet continues to produce strong YoY FFO/share growth despite the pandemic, thanks to its counter cyclical investments and repositioning program. In addition, MEQ is taking advantage of the historically low mortgage refinancing rates to reduce its interest expense and improve liquidity. We believe these initiatives should allow MEQ to maintain its track record of delivering double-digit FFO/share growth. Given these characteristics, it is not surprising that MEQ has a cult following of investors looking for a compounding machine.

In-line quarter: Q4/F21(ended Sept 30) FFO/share of \$1.50, up 13% YoY, was 5% above our \$1.43 estimate (consensus was \$1.48). Stronger than expected recovery in the Saskatchewan market is offsetting the slower recovery in the Alberta market.

Modest same property NOI growth: SP-NOI increased 1.2% YoY as occupancy losses were offset by higher NOI margins. SP-occupancy was 92.5%, up 120bps sequentially, but still 60bps lower YoY from 93.1%. See Exhibit 1 for regional occupancy trends. The 13% FFO/unit growth despite the modest SP-NOI gain highlights the real growth engine of MEQ's platform – its repositioning program.

Biggest acquisition year ever: Despite the pandemic-related uncertainty and a soft oil price environment, MEQ pursued its counter-cyclical investing, making 2021 its biggest acquisition year, buying \$216MM of properties (1,625 suites at \$133K/door). Mgmt expects to buy \$150-200MM of properties in F2022.

Mortgage financing – a key funding source: In F2021, MEQ financed 15 clear title properties and 25 maturing mortgages and generated \$191MM of incremental funds at an average interest rate of 2.1%. MEQ has \$88MM of mortgage maturities in F2022, and we estimate it could generate an additional \$100MM of capital. An effective use of this source of capital has allowed MEQ to grow its portfolio, from 900 suites in 1999 to the current 15,074 suites, without raising new equity.

Leverage and liquidity: MEQ's Debt to GBV was 51% vs. the peer group average of 43%. MEQ's liquidity was \$120MM (cash + credit facility). MEQ expect to have access to \$223MM of liquidity in the next 12 months.

Maintaining Buy rating; increasing Target Price from \$120 to \$140: Our 2022 FFO/AFFO estimates are increasing by 5%. The \$108/share stabilized NAV estimate remains unchanged. The \$140.00 target is a blend of a 15% premium to NAV and a 5-year DCF. See Exhibit 3 for our model.



Laurentian Bank Securities Equity Research Action Note

Mainstreet Equity Corp.

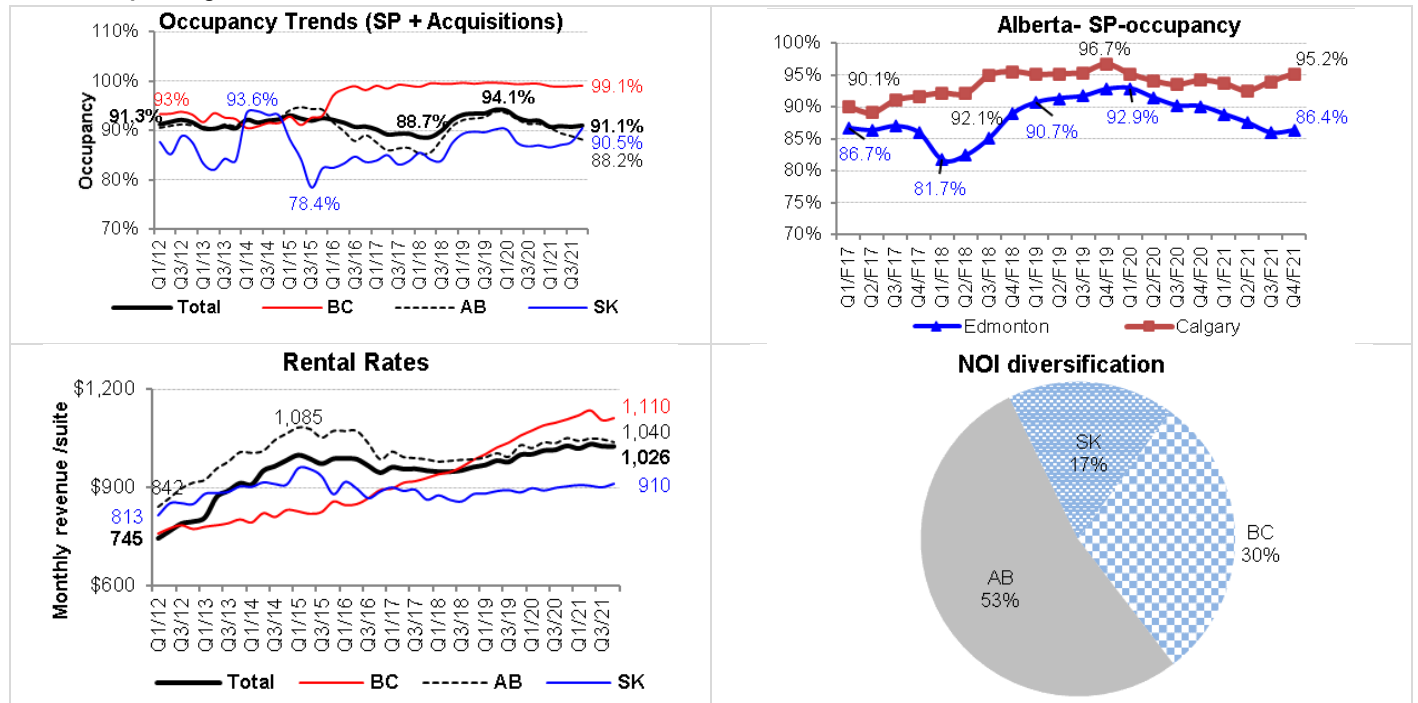
(MEQ-T – \$104.19)
Buy – Target: \$120.00

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December 9, 2021

Calgary occupancy 95%+; Edmonton stabilizing: As shown in the top-right pane below, MEQ's Calgary portfolio is already above 95% SP-occupancy and Edmonton appears to have marked a bottom as the occupancy rate remained steady in FQ4/21.

Exhibit 1. Operating Performance



Source: Company Reports, LBS

MEQ's NAV doesn't reflect potential cash flow growth: While MEQ trades at a 12% premium to our stabilized NAV estimate, we think its P/FFO multiple is more relevant as it takes into account MEQ's sector leading FFO/unit growth (5-yr CAGR of 15%) .

Exhibit 2. Comp Table*

		Price	Market		Target	Total	Distribution				Price /	Price / FFO	Price / AFFO	Debt /	Debt /		
Company	Company	12-8-21	Cap \$MM	Rating	Price	Return	Rate	Yield	Payout	NAV	NAV	2021E	2022E	2021E	2022E	GBV	EBITDA
Canadian listed Apartment REITs																	
Boardwalk REIT	BEI.UN	C\$54.98	2,807	Buy	\$63.00	16%	1.00	1.8%	37%	53.00	104%	18.6x	16.8x	23.8x	20.5x	46%	12.7x
BSR REIT	HOM.U	US\$16.35	849	Buy	US\$19.00	19%	0.50	3.1%	74%	16.60	98%	28.0x	20.3x	32.8x	24.3x	43%	11.6x
InterRent REIT	IIP.UN	C\$16.84	2,407	Hold	\$18.00	9%	0.34	2.0%	69%	14.50	116%	33.5x	29.4x	39.2x	33.9x	34%	12.3x
Killam Apartment REIT	KMP.UN	C\$22.84	2,609	Buy	\$26.00	17%	0.70	3.1%	72%	22.80	100%	21.2x	20.0x	25.4x	23.6x	44%	11.3x
Morguard NA REIT	MRG.UN	C\$17.35	1,050	Buy	\$21.00	25%	0.70	4.0%	63%	23.50	74%	15.1x	13.0x	18.4x	15.6x	42%	11.4x
Mainstreet Equity	MEQ	C\$120.70	1,111	Buy	\$140.00	16%	NA	NA	NA	108.00	112%	23.7x	19.5x	32.7x	25.5x	51%	13.9x
Minto REIT	MI.UN	C\$21.89	1,294	Not Rated	NA	NA	0.47	2.2%	52%	24.51	89%	27.3x	23.8x	27.6x	24.1x	40%	10.3x
CAP REIT	CAR.UN	C\$57.67	9,890	Not Rated	NA	NA	1.45	2.5%	59%	59.49	97%	24.6x	23.1x	25.1x	23.6x	NA	NA
Average /TOTAL	Average /TOTAL		22,017					2.7%	61.1%		99%	24.0x	20.8x	28.1x	23.9x	43%	11.9x

*Consensus estimates for companies not under coverage.

Source: Thomson, LBS estimates

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Exhibit 3. Financial Summary

Financial Statements and Ratios					
All figures in C\$, unless stated otherwise					
INCOME STATEMENT					
Year-end Sept.	F2019A	F2020A	F2021E	F2022E	Stabilized
Revenue	137,613	149,770	159,925	183,596	183,360
Operating expenses	(51,305)	(56,737)	(62,077)	(69,779)	(64,106)
Net operating income	86,308	93,033	97,848	113,816	119,254
Other income	439	206	426	382	-
G&A expenses	(12,463)	(12,477)	(12,240)	(12,641)	(12,600)
EBITDA	74,284	80,762	86,034	101,557	106,654
YoY growth		9%	7%	18%	
Financing costs	(34,771)	(36,861)	(38,343)	(43,711)	(45,967)
Cash taxes	-	-	-	-	-
Other items	(255)	(220)	(193)	(0)	-
Recurring FFO	39,258	43,681	47,498	57,846	60,687
Maint capex	(11,302)	(11,994)	(12,985)	(13,567)	(13,567)
Subsidies & other items	-	-	-	0	-
AFFO	27,956	31,687	34,513	44,280	47,120
FFO/share (FD)	\$4.15	\$4.66	\$5.08	\$6.19	\$6.49
AFFO/share (FD)	\$2.99	\$3.38	\$3.69	\$4.74	\$5.04
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					
	F2019A	F2020A	F2021E	F2022E	Stabilized
Cash Provided by (used in)					
Operating activities	40,473	35,453	35,609	57,846	60,687
Investing activities	(148,668)	(106,953)	(240,404)	(153,567)	(13,567)
Financing activities	107,881	109,902	185,547	99,797	-
Cash Beginning of period	384	70	38,472	19,224	19,224
Increase (decrease)	(314)	38,402	(19,248)	4,077	47,120
Cash End of the period	70	38,472	19,224	23,301	66,344
BALANCE SHEET SUMMARY					
	F2019A	F2020A	F2021E	F2022E	Stabilized
PP&E	2,040,051	2,184,215	2,616,154	2,768,681	2,628,681
Intangible assets	1,145	1,399	1,193	1,193	1,193
Other Assets	14,829	52,697	57,222	61,299	104,342
Total Assets	2,056,025	2,238,311	2,674,569	2,831,172	2,734,216
Mortgage debt	1,019,723	1,179,521	1,357,177	1,456,974	1,357,177
Credit facility	56,442	-	-	-	-
Unsecured debentures	-	-	-	-	-
Convertible debentures	-	-	-	-	-
Total debt	1,076,165	1,179,521	1,357,177	1,456,974	1,357,177
Other liabilities	179,555	191,701	225,083	225,083	225,083
Equity	800,305	867,089	1,092,309	1,149,115	1,151,956
Liabilities & Equity	2,056,025	2,238,311	2,674,569	2,831,172	2,734,216
Basic shares outstanding	9,382	9,350	9,345	9,345	9,345

Key Ratios and Assumptions	F2019A	F2020A	F2021E	F2022E	Stabilized
Leverage Ratios					
Debt to GBV (incl. conv)	52%	52%	52%	52%	52%
Debt to GBV (excl. conv)	52%	52%	52%	52%	52%
Net debt / EBITDA	14.2x	13.8x	14.5x	13.9x	12.3x
Interest coverage	2.1x	2.2x	2.2x	2.3x	2.3x
Model Assumptions					
Occupancy (avg)	94%	93%	91%	93%	95%
Rent / month / suite	\$983	\$1,015	\$1,026	\$1,042	\$1,066
Speculative Acq'n (MM\$)	-	-	-	140,000	-
Assumed cap rate	0.0%	0.0%	5.5%	5.5%	5.5%

Source: Company Reports, LBS

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Mainstreet Equity Corp.	MEQ-T	A, V

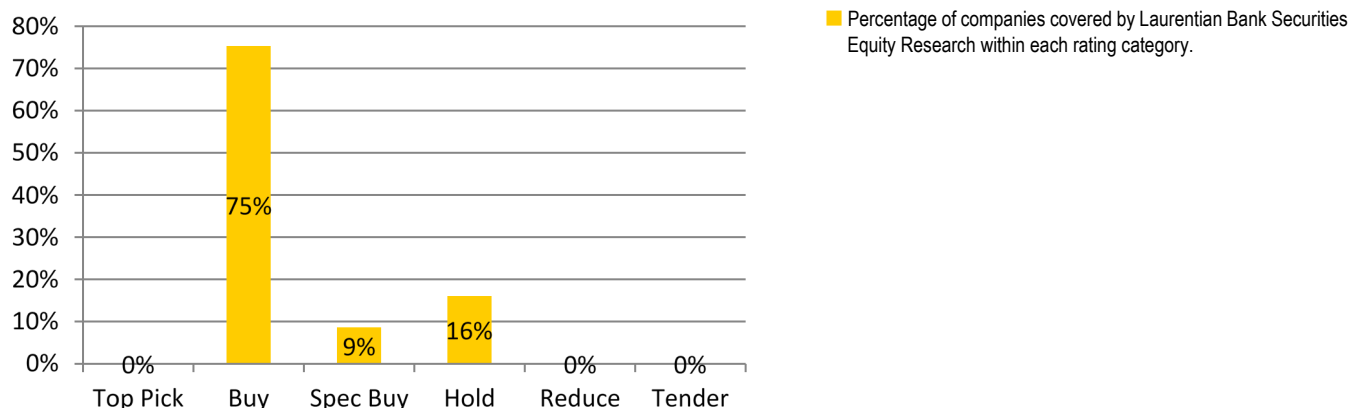
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Source: Laurentian Bank Securities

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	Buy	The stock is expected to generate significant risk-adjusted returns over the next 12 months.
	Hold	The stock is expected to generate modest risk-adjusted returns over the next 12 months.
	Reduce	The stock is expected to generate negative risk-adjusted returns over the next 12 months.
	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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