

Q3 2021 Investment Memo

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This memo captures the investment ideas I'm working on. I will post a more detailed letter with positions and performance at year-end.

Melcor Developments Ltd. (TSX: MRD)

Melcor Developments is an undervalued real estate development and asset management company. The company develops and markets land for construction, builds retail, office, and industrial properties, manages wholly-owned commercial developments, and holds 39 income-producing properties through a minority stake in Melcor REIT (TSX: MR.UN). The company operates in high-demand and growing markets, including Alberta, British Columbia, Denver, and Arizona. Melcor trades at ~ EV/FFO and 0.47 P/TBV. The broader North American RE market is, by historical standards, highly-priced with average cap rates in the low single digits or lower. Ownership in Melcor Developments offers ownership in a hot RE market at discount prices. Since April, the company has repurchased the maximum number of shares per day as stated in its NCIB of 3,781. The repurchases consist of ~40% of the YTD average daily volume. Insider ownership is high at ~60%, with strong insider buying. Melcor Developments has historically traded at a steep discount to TBV; however, the return of capital via share repurchases and a dividend reduce this risk. Many thanks to [LF Research](#) for this idea.

NamSys Inc. (TSXV: CTZ)

NamSys is an attractively priced SaaS business with strong earnings growth, revenue profile, margins, and outlook. The company produces and sells software that reduces the cost of handling cash to cash in transit operators, banks, and safe manufacturers. Since NamSys transitioned from a licensing software to SaaS model in 2013, it has grown revenue at 23% CAGR and EBITDA at 33% CAGR in the last 5 years (pre-covid). 99% of revenue is recurring with close to 0% revenue churn. Margins are strong with 70% gross and 45% EBIT. The company is trading at 15x EV/FCF, a relatively low industry multiple, one that fairly compensates for the risk. NamSys deserves a discount due to its low market cap of \$28m and even lower float of ~40%. However, its size makes it a strong candidate for a take-private situation at a premium to current share price. Many thanks to [RCIF](#) for this idea.

Black Diamond Group (TSX: BDI)

Black Diamond Group is a modular storage and workforce accommodation business trading at a discount to peers. Many thanks to RCIF for this idea.