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'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."

Peter Hodson, chartered financial analyst, needs no introduction, having been a long-time contributor to this publication while working for major Canadian financial institutions. Last fall, he left as chairman of Sprott Asset Management to run *Canadian MoneySaver*, a nine-times-a-year magazine dealing with financial topics. But he didn't want to cut all ties to Bay Street and early this year started 5i Research Inc., a website where he provides "conflict-free" commentary on the stock market and his opinion on specific stocks, grading them, as a high-school teacher might, from A+ to F. No perplexing or cute ambiguities like "outperform," "overweight," "market perform" or "neutral."

We've always liked his articles for their straightforwardness and candor. And our recent conversation with him convinces us that if investors apply his focused approach to investing, they will spare themselves a lot of grief in the long run. He doesn't spend much time analyzing the economy. Instead, he concentrates on individual companies, particularly on their earnings. A key yardstick for him is how those stocks performed in the global stock-market collapse of 2008 and 2009.

"We consider that period per-

haps the second worst of the past hundred years, and if they survived '08-'09 and were still able to improve their earnings, then we know we're on to something," he says. He adds that if you look you will find that many companies were able to grow, or at least, maintain their earnings in that period and names Constellation Software Inc. (CSU-TSX, \$116.20), Badger Daylighting Ltd. (BAD-TSX, \$29.52) and Cineplex Inc. (CGX-TSX, \$30.54) as great examples.

"Looking at '08-'09," he says, Constellation "grew at about 20 per cent year over year and almost doubled its earnings in 2010." He goes on to show that Badger earned \$1.75 a share in '08 and \$1.73 a share in '09, just two cents a share less, and is now expecting to earn \$2.40. Cineplex earned 60 cents in '08 then 96 cents in '09. "While nobody had any money and all were worried about their jobs, Cineplex just knocked it out of the park," he says. "And so that 96 cents in earnings has gone to a \$1.26, now that things have sort of settled down. Names like that are everywhere."

But, of course, you have to look for them. He believes most investors don't do enough homework and also trade too much.

"Now if you had to sell one of those names in March of '09, you would have lost money," he ad-

mits. "But we don't think you should ever buy a stock if you think you're going to have to sell it one day."

Another attractive feature of Constellation, which is his first recommendation for us, is that it doesn't dilute its shareholders by issuing new shares. He says the Toronto company is probably the best example of a company that does everything right, noting it raised its dividend from 15 cents to a \$1 in five years. Its revenue has gone from \$210 million in 2006 and is expected to come in at just under a billion dollars in 2013 — five times higher. Earnings have gone from "basically flat to almost \$8 a share expected," and most of all, the company has "not issued a single net new share — their share count is exactly the same as it was six years ago."

Peter doesn't set target prices, claiming they are the world's worst invention. He uses Constellation's share price, which has gone from \$21 to \$114 in less than six years to make his point. Three years ago, he says Bank of Montreal set a \$40 target for Constellation, then raised it to \$45, then to \$58, and again earlier this year, to \$100. Investors who sold at the lower targets could be asking themselves why, especially since the price continued to power upwards.

"Instead of looking at target

prices, if they had looked at earnings in that period of time, they would have realized earnings were starting to accelerate, and that maybe they shouldn't be selling," he says. "You will never get a 10-bagger if you sell too early." The shares trade at 14 times earnings.

His other recommendation is professional services provider Stantec Inc. (STN-TSX, \$35), which has been "profitable for 57 years" and this year started paying a dividend.

"That's what we like to see," Peter says. "Here's a company that's been through every recession since the Depression and has managed to make money all the time. When a company pays its first-ever dividend, it's a pretty significant statement, and it can also be a sign that maybe it's going to grow the dividend."

He points out its shares trade at 13 times earnings, and "by our calculations this company is going to grow by almost 40 per cent this year versus last year. So with the growth, the valuation, the good balance sheet, the ability to survive a recession and the dividend, there's a lot we like about it." And there's one more thing: "The number of shares outstanding on this company in 2005 was 45 million, and the number of shares outstanding today is still 45 million."