5 Canadian Stocks to Retire On

Description

The 5 Canadian stocks that are "must haves" in my book are all based on one of three long term, secular trends that are currently under way. These trends are: an aging population, the energy infrastructure build-out, and the shift toward organic, natural foods.

(1) Amica Lifestyles (TSX: ACC)

Amica Lifestyles is engaged in the management, marketing, design, development, and ownership of luxury housing and services for mature lifestyles. We all know that our population is aging, and retirement communities are booming. As evidence of the growth in this industry, Amica's 2012 revenue increased 31%, and the latest quarter (Q3 2013) saw an increase in revenue of 26.6% over the same period last year. Cash flow from operations also grew nicely in 2012, a 25% increase to $15 million. And in the third quarter of 2013, Amica achieved cash from operations of $15 million from $9 million in the same period last year, an increase of 66.7%.

The stock is trading at the $8.50 level, with a book value of $5.69 per share.

The debt level is high, but they are in a capital intensive business so it is to be expected. As icing on the cake, Amica has a dividend Yield of 4.94%.

(2) Paladin Labs (TSX: PLB)

Paladin is a specialty pharmaceutical company focused on developing, acquiring, in-licensing, marketing, and distributing pharmaceutical products. It is a very diversified company, with over 65 products and an expanded international presence. The company has a 5 year CAGR in revenues of just over 30%. Most importantly, this growth has been achieved while maintaining profitability. Paladin's operating margin is over 30% and ROE currently stands at 16.3%

This is a very profitable company that is well positioned to take advantage of the changing demographics, with a proven track record of executing and driving shareholder value. Paladin does not pay out a dividend, but the company is in growth mode with plans to expand internationally. And if history is any indication, which it usually is, then we can be comfortable knowing that this company has done a great job at growing while creating shareholder value.

(3) Aecon (TSX: ARE)

Aecon Group Inc. is one of Canada's largest publicly traded construction and infrastructure development companies and has been active since 1877. Aecon is involved in the following business segments:

– Mining, which offers mine-site installation services and contract mining services

– Infrastructure, which groups all of Aecon's transportation, heavy civil, utilities, and social infrastructure capabilities and services

– Energy, which offers a full suite of construction and fabrication services to the oil and gas, nuclear, co-generation, and renewable sectors.

Aecon has been steadily growing its business over the last 6 years, and has increased revenue from just over $1 billion in 2006 to $2.9 billion in 2012. This represents a compound annual growth rate (CAGR) of 17%. EBITDA has grown at a CAGR of 28% over the same period, and dividends have grown at a 13% CAGR.

Aecon's backlog as at the end of the first quarter of 2013 stood at $2.073 billion. This speaks to the ability to forecast the health of the business on a go forward basis. Not only does Aecon have a strong backlog, the portion of the company's revenues that are recurring is also increasing. As at the end of the first quarter of 2013, recurring revenue was $700 million, up from less $200 million in 2006. The recurring revenues are related to a variety of construction services, in particular much of the work performed in Contract mining and utilities, and they give more predictability to revenue and earnings going forward.

Lastly, management has stated that they will focus on returning capital to shareholders over time and that they see unprecedented opportunities in their key sectors. And in my view, they are positioned to achieve both going forward. Revenue is growing nicely and profitability is strong. Canada's infrastructure requires big investment over the next few years, and the energy sector also requires investment in its infrastructure. Aecon is very well positioned to take advantage of these opportunities.

(4) Shawcor (TSX: SCL)

Shawcor Inc. is a global energy services company specializing in technology-based products and services for the pipeline and pipe services and the petrochemical and industrial markets. The company operates eight business units with more than seventy five manufacturing and servicing facilities worldwide. Shawcor is active in all high growth segments, including Deepwater, Shale, LNG, Oil Sands, Enhanced Recovery, and Water.

The pipeline coating industry is in the midst of a boom for 2 main reasons. First, pipeline infrastructure is so desperately needed to provide the energy to meet growing demand, and second, existing infrastructure is old and worn and needs to be replaced. There is a global backlog of pipeline projects currently planned or under construction.

Shawcor has been very successful and is running a very profitable business, with an EBITDA margin of over 20% and an ROE of 17.7%.

Furthermore, the business has great visibility, and as an indication of the future health of the business, we can look to the current backlog, which currently stands at $778 million. And on top of this, outstanding bids currently exceed $800 million.

(5) SunOpta (TSX: SOY)

Ten years ago, organic food retail sales were $7 billion per year with a growth rate of 15-20% per year. Currently, organic food retail sales growth rates are still going strong. It is estimated that growth in organic foods will be 13% per year for the next 5 years.

SunOpta is a vertically integrated organic food company that sources raw materials such as soy, corn, vegetables and fruit, transforms them into value-added ingredients for food manufacturers, and produces consumer packaged products. The risk in their business model is relatively low. They do not own farms and they do not have consumer brands. They sell their products to a large number of retailers, such as **Wal-Mart**, **Costco**, **Whole Foods**, and consumer goods companies, such as **Kraft**, **Cargill**, and **Gerber**.

SunOpta's focus going forward will be on the consumer packaged goods business, which has much higher operating margins (8%-12% margins) than the raw materials segment (2%-4% margins). Consumer packaged goods is currently 40% of sales, and management will focus on increasing that to 60%.

The potential for increasing margins, coupled with the expected continued strong growth rates in the organic food industry, should lead to very healthy returns for SunOpta.

Also, SunOpta has plans to divest of its non-core assets in order to become a pure play natural and organic foods company. Proceeds from selling these businesses will enable them to look at acquisitions to further grow the business. They also have a strong balance sheet which they can tap in order to help with their growth strategy.

Given the industry fundamentals and the company's strategy to increase margins, consensus earnings expectations are expected to increase 17% in 2013 and 33% in 2014.

Bottom Line

This list of companies are growing, are doing so profitably, and have reason to be optimistic about the future. Based on my analysis of these 5 companies, I believe that they should be able to ride the wave in their respective industries, while generating healthy returns for shareholders over the long-term.

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Fool contributor Karen Thomas owns shares in SunOpta. David and Tom Gardner owns shares of Whole Foods. The Motley Fool owns shares of Whole Foods and Costco.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ARE (Aecon Group Inc.)
2. TSX:MATR (Shawcor)
3. TSX:SOY (SunOpta Inc.)

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