



## Canada's 5 Buyback Champions Revealed!

### Description

*'Short of a polygraph, the best sign of a shareholder oriented management – assuming its stock is undervalued – is repurchases. A polygraph proxy, that's what it is.'* — Warren Buffett, Fortune Magazine 1985

As investors, what do we really want from management? We want them to be good stewards of our capital.

Ideally, every company will be able to reinvest all of its profits back into high return projects and grow the business at a quick clip.

But that's not always possible. Many companies just can't find many good investment opportunities. In this case, we hope management is disciplined enough to return excess capital to shareholders.

This is not to say that any company without a strong buyback track record is necessarily bad.

Take a wonderful business like **Starbucks**, for example. The coffee giant has generated an average 17.2% return on capital over the past five years. You know, I can't find many investments that can earn those types of returns. Please, CEO Howard Schultz, keep my money.

On the other hand, most businesses aren't on the same level as Starbucks. Many companies don't have an unlimited backlog of great expansion opportunities. Unfortunately, many executives are eager to invest your capital into low-return ventures to pad their resumes and build their business empires.

Share buybacks ensure only the best projects are funded. That's why when you see one, it usually indicates an investor friendly management team. Even better, they also increase your stake in a wonderful business without having to front additional cash.

So given that steady share repurchases are a good quality in a stock, let's see who's doing it the best.

In this investigation, I screened for medium and large-cap Canadian companies who had reduced their share count by at least 10% over the last five years. I call them my 'Buyback Champions'. Here're the

results.

### Canada's Buyback Champions

Company	Market Cap	5- Year % Change in Outstanding Shares
Tim Horton's (TSX: THI)	\$9.12B	18%
BMTC Group (TSX: GBT.A)	\$593.43M	24%
Rogers Communications ( <a href="#">TSX: RCI.B</a> )	\$24.62B	19%
Metro ( <a href="#">TSX: MRU</a> )	\$5.83B	17%
MacDonald Dettwiler & Associates ( <a href="#">TSX: MDA</a> )	\$2.93B	12%

Source: Bloomberg

Two observations I made from this list. First, several of these firms are in boring industries. Coffee shops and grocery stores don't scream high growth. But that doesn't seem to matter, as these stocks have been some of the best market performers over the past five years.

That's because buybacks allow investors to see the value of their share increase faster than the underlying business – on a tax deferred basis. It's why even the shares of stagnant companies can still post impressive results.

Metro, for example, has reduced its share count by 17% over the past five years in a disciplined manner. Is this a good policy for shareholders? Well the grocery industry is a competitive, slow growing business. It's a far better proposition to return capital to investors than to reinvest it back into the company.

Expect to see Tim Horton's on this list next year as well. Tim's plans to borrow \$900 million to fund additional share repurchases. This will allow investors to take advantage of record low interest rates and increase their stake in the business.

### Foolish bottom line

It's no conscience that the companies on this list are also top performers. The fact that management has been steadily buying back shares indicates that they're looking out for the interests of investors – a rare trait in the Canadian investment landscape. That's a good reason to put these stocks on your holiday wish list.

### CATEGORY

1. Investing

## **TICKERS GLOBAL**

1. TSX:MRU (Metro Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)

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