



Reviewing Barron's Top Canadian Picks

Description

Barron's has just published its [10 Favorite Stocks For 2014](#). And in a nod to the Great White North, the popular investment publication has stacked the list with two big Canadian names – **Barrick Gold** (TSX:ABX, NYSE:ABX) and **Canadian Natural Resources** (TSX:CNQ, NYSE:CNQ).

This shouldn't be surprising. Given the spectacular rally south of the border, U.S. equities are looking pricy. In contrast, the Canadian market has underperformed their American benchmarks for a fourth consecutive year. There are bargains abound for the careful shopper.

But should Barron's picks make the cut? Let's take a look.

Barrick Gold

"Want a depressed play on a depressed commodity? With a year-to-date decline of 56% to US\$15.50, Barrick trades below where it did a decade ago when gold was below US\$400 an ounce, versus US\$1,228 now." the publication wrote.

"Earlier this year, we estimated that Barrick would be worth US\$44 a share in a breakup scenerco. That looks high now given weaker gold prices and the dilutive equity offering. But Barrick could be worth US\$35 or more."

For anyone who has been following [the tribulations at Barrick](#), seeing this stock on Barron's list may be surprising. Management has flushed billions of dollars down the toilet through costly mining projects and overpriced acquisitions. And as a result of the company's poor capital allocation track record, shares trades at a discount to its peers at just seven times next year's earnings.

So given all of the problems, why buy the stock? Because disgruntled shareholders have been pushing for major [changes at the company](#).

In the boardroom, activists have pushed for the appointment of new independent directors and forced the resignation of chairman and founder Peter Munk. The company has also been forced to revamp operations by cutting costs, suspending construction at the Pascua Lama project, and selling off low quality mines.

But there's plenty of work left to be done. Over the long run, investors want to see the company refrain from expansion activities, spin-off low return projects, and return more cash to investors.

These action could unlock significant value for shareholders. In Barron's estimate, such activities could add US\$18 per share to the stock price. While this price target may be a bit high, their thesis is bang on.

Canadian Natural Resources

"This company has one of the best production outlooks among large North American energy outfits and could gush free cash flow after it completes an expansion of its oil-sands facility, scheduled for 2017." the publication writes. "Free cash flow could hit US\$5-billion annually by 2018, from US\$1-billion next year, once the Horizon oil-sands facility expansion is done."

Another solid pick from Barron's here. As hinted in their piece, completion of the Horizon oil sands project will free up a lot of cash flow for juicy dividends and share buybacks.

While I have nothing against Canadian Natural Resources, I'm a little more partial to Warren Buffett favourite – **Suncor Energy** (TSX:SU, NYSE:SU) in the Canadian energy space. Chief Executive Steve Williams has dialed back expansion plans and is [allocating more capital to share buybacks and dividends](#). This is exactly what we want to see in an environment of weak energy prices and soaring construction costs.

Additionally, pipeline constraints have resulted in low rates for oil sands bitumen. But that's not a problem for Suncor. It's integrated refining operations means that whatever revenue is lost in its upstream business is made up for downstream. That's a valuable asset in the current environment and is something Canadian Natural Resources lacks.

Foolish bottom line

With our equity market lagging the U.S. averages for the fourth consecutive year, it's no surprise to see a few Maple Leaf names making the list. Individual picks aside, Barron's nod may foreshadow a good year for Canadian equities in 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:ABX (Barrick Mining)
5. TSX:CNQ (Canadian Natural Resources Limited)

6. TSX:SU (Suncor Energy Inc.)

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