3 Great Companies We're Not Officially Recommending … Yet

Description

Take Stock *is the Motley Fool Canada's* ***free*** *investing newsletter. To have future editions delivered directly to you, simply* ***click here now****.*

Dear Fellow Fools,

In today's edition of Take Stock, I'm going to review three companies that fit very nicely with The Motley Fool's overarching investment philosophy—looking for long-term-oriented, business-focused stock ideas.

All three of the companies should be familiar to a good number of you because they were initially profiled here in Take Stock during 2013. And all three now reside on the "Watch List" of our members-only advisory service, *Stock Advisor Canada*.

Let's dive in.

1. Newalta (TSX:NAL)

Newalta was featured in the June 27, 2013 edition of Take Stock. Based on the closing price of the stock that day, it's provided a total return (including dividends) of more than 45% since. This compares quite nicely to the return of the S&P/TSX Composite of 20% over the same period.

Two things attracted us to this company. One, it has a highly unique asset base that provides waste-oriented services that competitor simply can't replicate. We like unique assets, and indeed our most recent formal recommendation in *Stock Advisor Canada* is largely based on this same principle.

But the thing that really got us excited about Newalta was that the value of these assets was not being recognized by the market. The company continues to dedicate significant financial resources to help grow these assets and help them realize their full potential. As the process gathers momentum, it's quite possible that the long-term returns will make the move thus far appear slim.

2. Solium Capital (TSX:SUM)

We profiled Solium in the July 25, 2013 edition of Take Stock and since, the stock has appreciated by 18%, after being up by more than 50% back in January. Over this same period, the S&P/TSX Composite has climbed by 14%.

Solium has had great success gaining market share with its software platform, which helps companies administer their corporate equity-based compensation plans. Growth has been considerable in recent years and with a strategy for international expansion in place, as well as several recent acquisitions to help it gain a presence in the world of private companies south of the border, the future remains bright.

The company's most recently reported results are a perfect example of the growth this company is experiencing. Revenue in the quarter of $17.4 million was up 30% year over year as it was aided by the U.S. acquisitions as well as increased trading volume on the platform. And this revenue growth isn't coming at the expense of the bottom line—the EBITDA margin (reminder: EBITDA = earnings before interest, taxes, depreciation, and amortization) registered 25% over the past 12 months, which compares nicely to the 22% average during the prior three years. That's an encouraging sign, considering that revenues have posted a compounded rate of growth of 36% over the past three years.

The biggest problem with Solium is that because of the run that it's had—the stock is up more than 300% in the past three years —its valuation metrics are stretched. I suspect this is the biggest reason for the recent pullback that has occurred.

3. AutoCanada (TSX:ACQ)

The crown jewel, thus far, of the three profiled companies is AutoCanada, whose shares have climbed by more than 80% since it appeared in the August 23, 2013 edition of Take Stock. The S&P/TSX Composite is up 13% over this same period.

AutoCanada is Canada's only publicly held owner of auto dealerships. And this company has a huge runway in front of it as current dealership owners are nearing retirement and looking for an exit strategy that monetizes their life's work. AutoCanada *is* that exit strategy.

It's important to understand the distinction in the auto industry between the companies that make the cars (and their well-documented inability to consistently perform over the years—**GM**'s current ignition issues are one of many examples) and the dealerships that sell them, which are rarely unprofitable. The beauty of the dealership model is that the bulk of the business is covered by the servicing, parts, and used car segments, all of which provide a recurring revenue stream. This makes the more cyclical new car sales portion of the business more or less gravy.

AutoCanada has recently added a GM dealership in Saskatchewan, which is a big development because it indicates that GM Canada is warming to the idea of publicly held companies owning its dealerships. In addition, the AutoCanada's recently released quarterly results were well-received by the market; those results indicated an increased pace of near-term dealership acquisitions over what had been anticipated.

Looking for more ideas?

As I mentioned, none of these companies has been made an official *Stock Advisor Canada* recommendation to this point. Instead, we've made 12 other recommendations that we think are much better suited for new money right now. And because we have to be respectful of our members, the only way you'll be able to learn about these 12 recommendations (with two more be released next Wednesday, in our May issue) is by joining our growing list of Foolish Canadian members.

If you're on the fence, let me tell you a bit more about what you get when you become a member. At the core, you get our two very best stock ideas each and every month—a fully vetted recommendation of one Canadian stock and one U.S.-listed stock. But that's really the beginning. Also included: a Weekly Update wherein our analyst team keeps you up to speed on company- and market-specific developments; a Scorecard that tracks how our recommendations are doing to ensure we're held accountable; our growing Watch List, including the three stocks we discussed above; and access to our Discussion Boards, where you can interact directly with myself and the entire four-member analyst team as well as other members.

Best of all

It's RISK-FREE! Right now, you can join *Stock Advisor Canada* for a mere $99 per year—a full 67% off our list price ($299 per year). However, if you're not completely satisfied, **simply let us know within the first 30 days after signing up and we'll give you a full refund—no questions asked.** (Refunds after 30 days are prorated, too.)

Bottom Line

To be clear, we're going to continue to show up in your inbox every week with Take Stock—this is a great forum for us to share our views on what's going on in the market. However, if you're looking for more specific stock recommendations, we'd love to have you join our *Stock Advisor Canada* membership service, which, by the way, is run by yours truly.

I hate sales pitches probably more than anyone I know, so I appreciate you letting me make one to you today (even if it has pushed me outside my comfort zone!).

Remember, it's risk-free—so come and give it a shot!

Click here now to get started!

Sincerely,

Iain Butler

Chief Investment Adviser

Motley Fool Canada

CATEGORY

1. Investing

Category

1. Investing

Date
2025/09/25
Date Created
2014/04/07
Author
tmfohcanada