RBC Capital Markets' Favourite Stocks for 2014: Part 1

Description

It's that time again. Every year, **RBC** (TSX: RY)(NYSE: RY) asks each of its analysts a simple question: What is the most attractive stock in your coverage universe? And since each analyst is responsible for only one sector, ideally they should be able to make informed picks.

The result is a list of 30 stocks from around the world, including a few names from Canada. Below are the analysts' favourite retailer, industrial, and non-bank financial.

Favourite retailer: Dollarama

Ever since **Dollarama** (TSX: DOL) went public in 2009, the shares have been on a tear – the stock currently trades in the high $80s, well ahead of the initial price below $20. One of the reasons for the company's success has been its massive growth; by November 2013, the company operated 847 locations across Canada after adding 86 net new stores in the previous 12 months alone.

Besides growth in stores, Dollarama has also boosted revenues by offering items prices up to $3. This has been very successful as well; as long as customers feel like they're saving money, they're willing to spend a little more. As a result, numbers have been impressive. In the most recent quarter, same-store sales increased 5%, and thanks to improving margins, earnings increased 28%.

And best of all, there is still plenty of room for growth in the Canadian dollar store industry. Moody's estimates there's room for another 1,000 dollar stores in Canada before we reach the same saturation levels as the United States. Credit Suisse estimated that there's room for another 1,700 dollar stores in the country. Dollarama plans to be a part of this; the company wants to increase its store count by 15% in the next 12-18 months alone.

Favourite industrial: CAE

Investors looking to emulate Warren Buffett should certainly consider owning shares of **CAE Inc** (TSX: CAE)(NYSE: CAE). The Montreal-based company makes its money from flight-simulation training, and its top competitor (FlightSafety) is owned by Mr. Buffett.

CAE is benefiting from a lot of tailwinds. First of all, airplane manufacturers **Boeing** and **Airbus** have very strong order books. And as more planes take to the skies, more simulators will be needed. Secondly, there is a looming pilot shortage, which will eventually make CAE's training services all the more essential.

The shares are currently being held back by concerns about military spending, which accounts for about 40% of CAE's business. But those concerns are likely overblown, and may have created an attractive entry point.

Favourite non-bank financial: Brookfield Asset Management

Like the two companies above, **Brookfield Asset Management** (TSX: BAM.A)(NYSE: BAM) has been a great win for investors. Over the past 15 years, the stock has returned 16% per year to investors, indicative of the company's great track record.

The future looks bright for the alternative asset manager. Fee-bearing assets increased by 32% to $79 billion in 2013, prompting management to call it the company's "best year ever". Investors are hoping that means "best year so far."

Foolish bottom line

These recommendations all came from sell-side analysts, so their picks should be taken with a grain of salt. But RBC's picks did beat the benchmark last year at least, and no one knows their respective industries better than these analysts do. These stocks should be on everyone's radar screen.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CAE (CAE Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BN (Brookfield)
4. TSX:CAE (CAE Inc.)
5. TSX:DOL (Dollarama Inc.)
6. TSX:RY (Royal Bank of Canada)

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