



3 Stocks From One of Canada's Top Mutual Funds

Description

Among Canadian equity mutual funds, very few have put up better numbers than the Penderfund Small Cap Opportunities fund. Since its inception in June 2009, the fund has returned over 21% per year. If someone invested \$10,000 in the fund when it started, it would be worth about \$25,000 today – by comparison, that same stake in the TSX composite would now be worth just over \$15,000.

Funds like these can be an excellent source of investment ideas. Below are three of the fund's holdings.

Absolute Software

One of many technology names in the fund is Vancouver-based **Absolute Software** (TSX: ABT), a provider of IT security and management solutions for computers, laptops, tablets, and smartphones. The company has a wide variety of customers, including individuals, small companies, large companies, and the government.

Part of what makes Absolute's business model so strong is its subscription-based revenue. Subscriptions typically last for one to five years, but the entire bill is paid up front by customers. This helps Absolute generate strong cash flow, which totaled nearly \$18 million over the last 12 months (about 41 cents per share).

At a \$7.10, the stock currently trades at 17 times cash flow from operations, not unreasonable for such a strong business model. And the growing use of mobility devices entering the workplace should help Absolute grow its cash flow over time – and ideally its share price too.

WiLAN

Ottawa-based **WiLAN** (TSX: WIN) is a developer, acquirer, and licensor of patents, primarily related to wireless technology. The company's portfolio includes 4,000 patents, which the company uses mainly to pursue licensing revenue.

The great thing about licensing agreements is that they lead to recurring revenue with very high

margins. The only problem is that WiLAN has to regularly sue companies that infringe on the company's patents; otherwise, wireless technology companies would have little incentive to sign licensing agreements.

WiLAN's business model leads to very volatile earnings numbers. And recently, the deal flow has slumped, depressing both earnings and the share price. In fact the shares are down 35% since July 2013, so now may be the perfect opportunity to steal some shares at a bargain price.

Sierra Wireless

Yet another high-technology name, Vancouver-based **Sierra Wireless** ([TSX: SW](#))([Nasdaq: SWIR](#)) is the global leader in machine-to-machine (M2M) devices. The company offers wireless modules, gateways and modems, and cloud services to a wide variety of customers around the world. Total machine-to-machine connections are currently growing at 46% per year, helping Sierra grow its business.

Sierra has been one of the fund's big winners in recent years, and as a result the best time to buy the shares may have passed. In late 2012, the stock was trading below \$8 per share – now it is trading above \$23. And the company trades at over 30 times cash flow from operations. But if the company continues to grow, and is able to effectively scale the businesses, then the shares may actually be trading at a bargain.

Foolish bottom line

While the fund's performance has been great, one caveat is that it is highly weighted toward technology names, and has thus benefited tremendously from a great run for high-tech stocks. And the sector is arguably overvalued today. But there is still no denying the success of the fund, which makes it a great source for ideas.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:SWIR (Sierra Wireless)
2. TSX:ABST (Absolute Software)
3. TSX:QTRH (Quarterhill Inc.)
4. TSX:SW (Sierra Wireless)

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