



Steal 3 Stock Ideas From an Award-Winning Fund

Description

Every year, the fine folks over at Morningstar give out awards to Canada's best mutual funds, breaking them down by asset classes. Since Morningstar is such a prestigious name in analyzing the fundamentals of mutual funds across North America, it's kind of a big deal for a fund to win an award.

The winner of 2013's best Canadian equity fund was the Mawer Canadian Equity Fund. This fund has consistently crushed the TSX, besting Canada's principal stock index by 4.2% and 1.8% annually over the past five and 10 years, respectively. Very few other funds can boast long-term numbers that beat the benchmark with such ease.

Here are three stocks the fund's managers believe are poised to outperform going forward.

TD Bank

Sometimes, the best stock picks are the most obvious ones. **Toronto Dominion Bank** ([TSX: TD](#)) ([NYSE: TD](#)) is one of Canada's big five banks, with exposure all across Canada and across the northeastern United States through its wholly owned subsidiary.

TD is a dividend growth machine. The bank recently hiked its quarterly payout by more than 10%, going from 42 cents per quarter to 47 cents. The dividend has been increased by more than 50% since the stock's 2009 low, and still only has a payout ratio of approximately 50%. Look for TD to continue raising its dividend every year, like clockwork.

The company's valuation is also reasonable, trading at just 14 times trailing earnings and 11 times next year's earnings. Analysts like TD's international profile, its exposure to capital markets both in Canada and the U.S., and its terrific retail footprint.

Constellation Software

TD is the Mawer Canadian Equity Fund's largest holding. The second largest is **Constellation Software** ([TSX: CSU](#)), which builds and maintains software for government and private sector clients. Essentially, the customer presents Constellation with a problem, and the company builds software to

fix it.

If the stock price is any indication, Constellation has been fixing a lot of problems. The stock is up 125% over the past year on strong revenue and earnings growth. Revenue was up 36% year over year in 2013, thanks to the company winning new contracts and acquiring many smaller competitors.

The company is a serial acquirer, gobbling up more than 125 smaller competitors over its history. Most of these companies are small players dominant in certain niches, meaning Constellation largely operates without any major competition. It's hard to compete with a software company that's managed more like **Berkshire Hathaway** than a traditional competitor.

Even though the stock may seem expensive — thanks to its price-to-earnings ratio of 55 and its price-to-book ratio of more than 25 — bulls argue that the company's growth and solid management make it a compelling buy. Constellation has also hinted its largest acquisition lies ahead, which is helping to keep shareholders optimistic, especially considering the company's acquisition history.

Canadian National Railway

After **Bank of Nova Scotia** and **Royal Bank**, **Canadian National Railway** ([TSX: CNR](#))([NYSE: CNI](#)) is Mawer's fifth biggest holding.

It's easy to see why Mawer is bullish on CN. Canada is awash in natural resources, and trains are a logical way to transport them. Demand is high and competition is low, leading to CN's recent success.

The company continues to chug along, growing revenue at about 10% a year. It also has solid, consistent earnings, and continues to buy back about 5% of its outstanding stock annually. The company currently trades at 19 times earnings, but that drops to 15 times next year's expected earnings.

CN also has potential as a big dividend payer going forward. The company's current yield is only 1.8%, but it has raised dividends annually since 1996. It also only pays out about 35% of its earnings to shareholders, giving it plenty of room for further dividend increases.

Foolish bottom line

Normally we don't pay a lot of attention to mutual fund managers, since us Fools are mostly interested in our own portfolios. But by looking at the best of the industry, we can take a peek into the mind of some of the smartest managers out there. Every investor can benefit from that.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CSU (Constellation Software Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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