



Which Canadian Company Boasts the Best Management?

Description

When picking stocks, quality of management is one of the most important factors when deciding what to buy. And there's a very simple way to evaluate a management team's effectiveness: simply look at its long-term track record.

So with that in mind, which Canadian companies have the best management teams? In no particular order, below are my top three picks.

Constellation Software

When **Constellation Software** ([TSX: CSU](#)) first offered its shares to the public in 2006, the idea was simple. Led by CEO Mark Leonard, the company would use the proceeds to buy small software companies, with a five-year growth target (for both revenue and EBITDA) of 20% per year.

Investors had every right to be skeptical. At an initial price of \$17 per share, Constellation had to achieve its very ambitious growth targets, otherwise the shares would be too pricey. But fast forward to today, and the stock trades at \$261 per share. An investment of \$10,000 back in 2006 would be worth over \$150,000 today. And it's all thanks to Constellation's management team, led by Mr. Leonard, making smart acquisitions over the company's history.

Home Capital Group

Home Capital Group ([TSX: HCG](#)) has a business model that sounds very dangerous: offering subprime mortgages to borrowers turned down by the big banks, typically entrepreneurs and immigrants. Yet over the company's history, it has managed to keep loan losses to a minimum – for example, last year loan losses came in at only 0.09% of total loans.

Home Capital also controls costs better than the Canadian banks, and as a result the company is consistently profitable – return on equity has exceeded 20% every quarter for the past 10 years, even during the worst of the economic crisis.

Long-term shareholders have been richly rewarded – over the past 15 years, the stock has returned

29% per year.

Peyto Exploration & Development Corporation

In Canadian energy, there is arguably no better run company than **Peyto Exploration & Development Corporation** ([TSX: PEY](#)). The natural gas producer is always among the most profitable in its industry, and also has consistently been a strong capital allocator.

This shows in the company's numbers. Over its 15-year history, Peyto's return on equity has averaged 34%. Meanwhile the company's net asset value per share (after adding in dividends) has grown by 32% per year. One only has to look at the struggles of other natural gas producers to realize how great an accomplishment this is.

Like Constellation Software and Home Capital, Peyto has been very rewarding for shareholders. If someone had invested \$1,000 in Peyto 15 years ago and reinvested dividends, that stake would be worth \$650,000 today.

Foolish bottom line

Picking Canada's top management teams is an impossible task; there are so many good ones, and there is no precise way to measure management quality. But it's hard to argue against the three picks above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)
2. TSX:HCG (Home Capital Group)
3. TSX:PEY (Peyto Exploration & Development Corp)

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