3 Top Stock Picks From Aurion Capital

Description

On Thursday, Aurion Capital's Greg Taylor appeared on the Business News Network to give his stock picks. Interestingly, all of them have done well so far, which may be why the Aurion Canadian Equity Fund has returned 31% over the past year.

Below, in no particular order, are his favourite names.

1. AutoCanada

Very few stocks in Canada have been on a run as nice as **AutoCanada Inc** (TSX: ACQ). Over the past five years, the stock has returned 114% per year! There's an argument that even brighter days are ahead.

AutoCanada has had a lot of success buying out small dealers, who typically own only one or two locations. This has slowly helped consolidate the industry, and when combined with a resurgent U.S. auto sector, AutoCanada has been the major beneficiary. Last year alone, profit increased by 58%.

But now there are even greater acquisition opportunities, with larger dealership groups willing to sell. These dealership groups could range from four locations up to about 15. AutoCanada hopes to make 10-12 acquisitions over the next two years, and should have no problem finding enough deals it likes.

The only issue now is that the stock is very expensive, trading at 22 times forward earnings.

2. Canadian Natural Resources

Another company on a great run is Canadian energy giant **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ); over the past 12 months alone, its shares are up more than 40%. Strong oil prices and easing transportation bottlenecks have certainly helped, but CNRL has also executed very well in recent years, keeping costs under control and allocating capital effectively.

Unlike AutoCanada, CNRL's shares are still fairly cheap, trading for about the value of its reserves (using a 10% discount rate after tax). This is not a bad price for a company with such a strong track record. And the price assumptions used in valuing its reserves are fairly conservative, meaning the company is worth even more if current oil prices hold up.

3. Valeant Pharmaceuticals

Like AutoCanada and CNRL, **Valeant Pharmaceuticals** (TSX: VRX)(NYSE: VRX) has been on a great run, with its shares returning 59% per year over the past five years. Also like the first two names, Valeant has had a lot of success with acquisitions. But there are some strong arguments against owning the stock.

For one, there is very limited visibility on how profitable Valeant actually is, again due to its acquisitive history. Short-seller Jim Chanos — who gained fame by betting against Enron — does not believe Valeant is as profitable as it claims, which is partly why he’s betting against the company.

Secondly, Valeant shares are arguably very expensive, trading at 33 times cash flow, according to Morningstar. Clearly, there is a belief that management will continue to grow earnings by making smart acquisitions. So any slip-up from this point forward may result in some healthy profits for Mr. Chanos. You’re better off not taking that risk.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:ACQ (AutoCanada Inc.)
4. TSX:BHC (Bausch Health Companies Inc.)
5. TSX:CNQ (Canadian Natural Resources Limited)

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