



Which Is the Best Private Equity Stock in Canada?

Description

A new study from State Street Global Exchange shows that institutional investors are increasingly looking to private equity in the search for yield. State Street found that 59% of the 118 institutional investors it surveyed from around the world planned to increase their private equity investments over the next five years in the hopes of securing higher uncorrelated absolute returns.

Where institutional investors go, retail investors are soon to follow. Here in Canada, that means there are few, if any, options, at least when it comes to the private equity arena.

Three private equity stocks come to mind: **Onex Corporation** (TSX:OCX), **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)), and **Alaris Royalty Corp.** (TSX:AD).

But only one of them is truly the best private equity stock in Canada.

First up is Onex Corporation, Gerry Schwartz's baby.

The purest private equity play of the trio, Onex finished 2015 with \$2.1 billion in private equity investments, credit funds, and ownership of Onex shares. More importantly, it finished 2015 with \$2.1 billion in cash and near cash along with \$3.1 billion in uncalled committed capital from its limited partners. It's got lots of dry powder ready to be put to good use.

Over the past three-, five-, or 10-year periods, Onex stock has handily outperformed the S&P/TSX 60 and the mighty S&P 500. With private equity getting more popular by the day, you can expect Gerry Schwartz to continue to deliver market-beating returns.

Prem Watsa's Fairfax is often referred to as the Canadian version of **Berkshire Hathaway Inc.** Over the past 30 years, Watsa's grown its return on book value by more than 20% annually, an extraordinary record that compares favourably with the Oracle of Omaha himself.

While most consider Watsa a stock picker who's been able to cobble together a global insurance operation along the way, it's his move of buying private non-insurance businesses that has captured the interest of investors in Canada and elsewhere.

Among Fairfax's holdings is a 57% voting stake in Cara, a 125-year-old hospitality company whose brands include Swiss Chalet, Harvey's, Milestones, Fionn MacCool's, and others. Like the Berkshire Hathaway annual letter to shareholders, Fairfax's is chock-full of interesting investments that Watsa's turned to gold.

In 1985 Fairfax had a book value of \$1.52 per share; today, it's over \$400. You do the math.

Lastly, you've got Calgary-based Alaris Royalty, which isn't really a private equity firm but rather a lender of growth capital that happens to take non-control equity positions as part of its payment. This model allows entrepreneurs to hang on to their businesses while obtaining the funds necessary in order to grow. It's a win/win proposition.

Its stock has had a bit of a resurgence in the past month but otherwise has seriously underperformed despite revenue and normalized EBITDA growth over the past 12 months of 19% and 31%, respectively. With an all-time high about \$36, I believe its stock can return to those levels by the end of 2016 or mid-2017 at the latest.

For my money, Alaris Royalty is the best private equity company in Canada.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:FFH (Fairfax Financial Holdings Limited)
3. TSX:ONEX (Onex Corporation)

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