



3 Stocks to Buy That You Won't Find in the TSX Composite Index

Description

Montreal-based portfolio manager Stephen Takacsy is the CEO and chief investment officer of Lester Asset Management, an investment management firm that manages more than \$300 million in assets, including \$56 million in the Lester Canadian Equity Fund, an actively managed fund that's coming up on six years in existence.

He believes that despite some pretty heady valuations in the markets at the moment, the move by investors from actively managed mutual funds to passive ETFs like the **iShares S&P TSX Capped Composite Index Fund** ([TSX:XIC](#)) has created some attractive buying opportunities in stocks ignored by investors because they're not included in the major indexes, such as the TSX Composite Index.

Stocks like **Andrew Peller Ltd.** ([TSX:ADW.A](#)) — a wine business with a \$638 million market cap I first [recommended](#) in October 2016 — that fly under the radar of a lot of investors simply because they aren't in the index or they're disregarded by analysts.

Takacsy particularly favours small-cap stocks like Peller and **Plaza Retail REIT** ([TSX:PLZ.UN](#)) and micro caps such as **Ten Peaks Coffee Co. Inc.** (TSX:TPK).

Takacsy's fund has performed well since its inception in July 2006, up 10.3% on an annualized basis after fees, 440 basis points better than the TSX Composite, so he definitely delivers for the owners of his fund.

Here are three more of the manager's holdings I see doing well in 2018 and beyond.

Winpak Ltd. ([TSX:WPK](#))

It's not been a good year on the markets for the Winnipeg manufacturer of plastic packaging. Its stock was moving along at a nice pace heading into the summer, up 33% since the beginning of 2017, and then it proceeded to unwind almost all of those gains in the second half of the year due to NAFTA concerns.

If today were December 31, Winpak's 2017 total return would be just 2.2%, which isn't great

considering its 2016 total return was -0.04%.

In July 2016, I [recommended](#) Winpak stock, suggesting its consistent growth of both revenues and earnings made it a winner in my books. It's barely budged over the last 17 months thanks to the 2017 second-half letdown.

Have a look at its earnings for the first nine months of fiscal 2017, and you'll see that it continues to grow the top and bottom lines, providing investors with an excellent entry point

Ag Growth International Inc. ([TSX:AFN](#))

Not to be confused with **AGT Food and Ingredients Inc.**, who process and sell pulses all over the world, Ag Growth manufactures equipment for the storage and handling of grain and fertilizer — two products that are likely never to lose their demand.

Heading into 2018, the company expects its sales and EBITDA to grow as a result of a higher than usual backlog of business in both Canada and internationally. As well, its fertilizer platform in Brazil and elsewhere is performing well, and the contribution from Global Industries Inc., the U.S. business it acquired in April for US\$100 million, has expanded its U.S. manufacturing capabilities.

Its stock might be a little ahead of itself in terms of its valuation at 18 times cash flow, but the 4.5% dividend yield should help take away any doubts about owning its stock.

Savaria Corp. ([TSX:SIS](#))

If you think Ag Growth is expensive, you'll definitely feel the manufacturer of elevators and lifts is anything but a value at almost \$18 a share, but given the aging population is expected to provide Savaria with 10% annual organic growth for the foreseeable future, I think it remains a stock worth owning.

Also, it also likes to make acquisitions. Its most recent saw it pay \$3.1 million for an Australian company that it gives it access to the Aussie market — a big one in the company's expansion plans.

In fiscal 2018, Savaria expects revenues to grow by 40% year over year to \$260 million with EBITDA of at least \$42 million, its best profitability over the past five years with margins that have never been higher.

It's definitely a growth story worth buying.

CATEGORY

1. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:ADW.A (Andrew Peller Limited)

2. TSX:AFN (Ag Growth International)
3. TSX:PLZ.UN (Plaza Retail REIT)
4. TSX:WPK (Winpak Ltd.)
5. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

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