7 Darlings or Duds of the TSX

Description

Exposure to the **S&P 500** was a winning approach, since this index is up over 18% for the year. Here are some darlings and duds from the TSX.

Darlings

It was a another solid year for **Magna International Inc.** (TSX:MG)(NYSE:MGA). With the ~2% dividend yield, the year-to-date gain is just shy of 20%. This is not even a break-out year for Magna; the stock tends to outperform. As a global supplier of automotive components, it is cyclical and tied to car sales.

Magna beat 2017 estimates in the first three quarters. Next year, earnings are expected to increase by 11%, slightly below the previous annual earnings (13%). Magna manages to stay one step ahead of the competition. Value investors will like estimates on the forward price-to-earnings ratio (P/E), which will again be ~10. Low P/E is typical for the auto sector. Magna remains consistent because its business is diverse across different auto manufacturers and products.

Is it too late to jump on the **Tucows Inc.** (TSX:TC)(NASDAQ:TCX) band wagon? Having faith in this tech/telecom company, despite autumn turbulence, yielded a 59% year-to-date return. This high flying stock tends to make 30% gains on average per year. The rich valuation is deservedly high, with the forward P/E at 41. This would make a value investor cringe; the high forward P/E is the highest it has ever been for Tucows. Can this great streak keep going? Yes. Earnings are expected to increase 50% in 2018. The price-to-sales multiple is 2.5, which is comparable to **BCE Inc.** (TSX:BCE)(NYSE:BCE); it's a salient comparison, since Tucows is nipping at BCE's giant blue toes.

On the topic of telecom and darlings, I have to eat my hat because I got **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) wrong. The stock rose 21%, whereas BCE went up a sluggish 3%. Contrarian investors looking for dogs to buy would go for BCE in 2018, but I digress.

Duds

As the hype continues, how many new cryptocurrencies and hedge funds will be created next year? Watch out for buzz words and fuzz businesses. Following a brazen trend, **Transeastern Power Trust** (TSXV:TEP.UN) announced that it intends to change the company name to Blockchain Power Trust.

Sidebar: Transeastern is meant to be a wind energy company. You're right to feel confused.

Among wind energy companies, **Pattern Energy Group Inc.** (TSX:PEG)(NASDAQ:PEGI) could be a front runner. It is not a dud for 2017, but business sputtered for the year in part due to weather. The forward P/E is over 100 — a high multiple for a non-growth stock. This company has a long investment horizon, as clean energy expands in the future. Dedicated investors might be hunkering down for a long ride.

Cineplex Inc. (TSX:CGX) is reinventing parts of its business after a challenging 2017 — down 32% year to date. A long-term holder will still have realized a ~5.8% annual return; that's decent. Looking ahead, the forward P/E is above 32, which is fairly typical for Cineplex. Its 2018 earnings could increase by 20% compared to 2017, but the range on these estimates is wide. The uncertainty could also be below the $1.17 per share 2017 level. If this is the case, 2018 will be another painful year for Cineplex shareholders.

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3. NYSE:MGA (Magna International Inc.)
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5. TSX:BCE (BCE Inc.)
6. TSX:CGX (Cineplex Inc.)
7. TSX:MG (Magna International Inc.)
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