



3 Dual-Class Stocks to Own Now

Description

A new study from **National Bank** suggests family-controlled public companies, including those with dual-class share structures, tend to outperform public companies that don't have a significant, controlling shareholder.

In 2016, I'd [highlighted](#) three companies with dual-class share structures that I thought would outperform their peers on the **TSX Composite Index**. The trio of stocks since then has averaged a cumulative return of 26%, about 800 basis points better than the **iShares Core S&P/TSX Capped Composite Index ETF**.

National Bank's findings — it examined 43 family- or individual-controlled companies — suggest dual-class share structures ought to be able to continue outperforming its single-class peers.

"As of May 31, 2018, the NBC Canadian Family Index registered an absolute total return of 206% since June 2005, the Index reference period, compared to 133% for the S&P TSX Composite Total Return over the same period," stated the bank's report. "On an annualized basis, the outperformance is also clear. Returns for the Family Index were 9.0% versus 6.7% for the S&P/TSX Composite Total Return Index."

Of the 43 constituents in the **NBC Canadian Family Index**, 27 have dual-class share structures. Of the 27, here are my three favourites.

Canadian Tire ([TSX:CTC.A](#))

The iconic Canadian retailer was one of the three stocks I picked back in 2016. Although its common stock had solid performances in both 2016 and 2017, this year is turning into a bit of a dud. With more than eight months in the books, it's down 1% through September 11, trailing many of its retail peers.

Part of the problem appears to be that it's getting itself into some different situations outside its usual operational focus — the Helly Hansen acquisition and Petco partnership are just two examples — and that's causing investors to question its business plan.

It also doesn't help that its Sport Chek stores aren't exactly lighting the house on fire when it comes to same-store sales, down 0.3% in the second quarter ended June 30, compared to growth of 2% and

1.3% at Canadian Tire and Mark's, respectively.

I think the company will sort out all of its issues over the remainder of the year and come out swinging in 2019.

CTC.A stock is trading lower than it has since last October. I'd consider buying some today and waiting to see if it falls further into the \$140s.

Long term, the Billes family's 61% voting control will ensure that management keeps pushing the envelope to generate growth.

Power Corporation ([TSX:POW](#))

The Desmarais family's holding company's stock — it controls 59% of Power's votes and 21% of the equity — has had a terrible go of it since the end of 2013, delivering annual total returns of 3%, -5%, 8.4%, and 12.4% between 2014 and 2017.

Down 10.7% year to date through September 11, it's trading at its lowest point since November 2016.

Power Financial, Power Corporation's 65.5%-owned subsidiary, continues to make big bets on FinTech companies, the latest being AI software startup Intergate.ai, where it was the lead investor in a \$30 million financing round.

In total, Power Corporation and its subsidiaries have made more than \$240 million in investments that are altering the financial services landscape. Long term, investments like Wealthsimple will deliver tremendous returns.

It could be the most misunderstood of family-controlled companies. At \$28, it's an excellent deal.

CCL Industries ([TSX:CCL.B](#))

The last time I covered its stock was March 2017 when I'd [recommended](#) it as one of five stocks to own for the next five years. Before that, it was December 2016 when I talked about a transformational acquisition.

It's hard to believe I haven't written about CCL Industries more often given it's one of the most consistent stocks on the TSX; it's currently up 9.5% year to date through September 11, its ninth consecutive year of positive returns.

I'm not going to say much except that the Lang family, who control 95% of its votes, have three family members on its board, including Don Lang, the executive chairman and former CEO.

CCL's results speak for themselves.

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2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:POW (Power Corporation of Canada)

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