3 “Warren Buffett-Inspired” Canadian Stocks

Description

He’s called the Oracle of Omaha for a reason. From 1965 to 2017, Buffett’s **Berkshire Hathaway** rose 20.9% a year compared to 9.9% for the S&P 500. While 20% may not sound huge, and while many investors have had the odd year where they did better, it’s absolutely astounding for a *52-year* run.

Warren Buffett is probably the wealthiest person in history to earn his fortune mainly by buying stocks. So, naturally, many investors try to emulate his portfolio. But with most of the Oracle’s holdings being U.S.-centric, how can a Canadian investor (with a preference for domestic investments) do that?

Sure, it’s possible to buy stocks on the NYSE. But CAD-USD currency fluctuations make understanding your investment performance more complicated. Luckily, there are some Canadian stocks that mirror Buffett’s picks pretty well. We’ll start by one that has been bought up by Buffett’s “best friend” Bill Gates.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

Canadian National Railway made headlines when Bill Gates started buying up the stock aggressively in 2011. Gates purchased about $3.2 billion worth of shares, and the stock has since tripled in value. The play was most likely inspired by Buffett’s purchase of the BNSF Railway in 2009 — a whopping $44 billion acquisition.

If you’re kicking yourself for not having bought CN back in 2011, don’t worry. This Buffett-style play is probably still good in 2018. It’s nice and cheap with an 11.5 P/E ratio. Revenue is growing at a solid 27.10% year over year. And the company is wildly profitable with a 42% profit margin and a 34% return on equity.

Sun Life Financial (TSX:SLF)(NYSE:SLF)

It’s no secret that Warren Buffett likes insurance companies. Berkshire Hathaway’s early success was driven by the strong performance of Geico, which is now a wholly owned subsidiary of the company.

While there’s no company on the TSX that’s quite identical to Geico, there is one solid insurance company that has delivered solid returns to investors over the long term. That company is Sun Life Financial. While the stock is mostly flat year to date, it has delivered solid returns (plus dividend income) over a five-year period. It currently trades for 13 times earnings with a 3.63% dividend yield and 22% year-over-year earnings growth as of the most recent quarter.

Alimentation Couche-Tard (TSX:ATD.B)

Last but not least, we have Alimentation Couche-Tard. Alimentation is a convenience store company that operates over 15,000 stores in North America, Asia, and Europe. Its stores include Couche-Tard, Mac's, and Circle K.

What makes this a Buffett-style pick?

It all comes down to the company's performance.

Warren Buffett is a value investor and favours evaluating stocks by performance of the underlying company (as opposed to the stock performance). Put simply, Buffett likes to buy great companies at low prices. And Alimentation wins on both counts.

The company is a strong performer, with 24.9% earnings growth, a 23.81% return on equity, and staggering revenue growth of 50% year over year. The profit margin is less impressive at 3.1%, but Buffett tends to favour return on equity as a profitability ratio. And the stock is priced low for a company with high earnings growth, with a P/E ratio of 19.

Alimentation's stock has also more than tripled over five years, although Buffett would probably tell you not to pay any attention to that.

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2. TSX:CNR (Canadian National Railway Company)
3. TSX:SLF (Sun Life Financial Inc.)

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