THE GLOBE AND MAIL

Tim Shufelt
Investing reporter

Three stocks fund managers are buying right now

Includes correction
Published Wednesday, Apr. 22, 2015 7:39PM EDT
Last updated Thursday, Apr. 23, 2015 6:29PM EDT

- 0 comments

Globe Unlimited's Inside the Market is continually canvassing the buy side on their latest stock trades. Here are three Canadian money managers on their recent transactions.

The portfolio manager: Jason Donville, president at Donville Kent Asset Management
The purchase: CGI Group Inc. (GIB.A)
Everything was going well for this Montreal-based IT services company until Obamacare.

The company's stock was on a near-uninterrupted five-year ascent, fuelled in large part by the transformative $2.7-billion acquisition of Britain-based Logica PLC in 2012.

CGI then ran into some bad publicity in late 2013 for its role in the botched launch of the website supporting the U.S. Affordable Care Act. While the stock traded sideways for most of the following year, the Obamacare contract had little bearing on the company's earnings profile.

"The question becomes how much do you trust this management team? And we trust them."

The company has a strong record of profitable growth, with annual return on equity exceeding 20 per cent. And CGI's backlog of revenue now exceeds $20-billion.

The stock has advanced over the past six months as the resource sell-off, combined with concerns for the banking sector, have pushed investors into large Canadian stocks in the market's smaller sectors.

But high-growth large names in Canada are expensive, trading in the range of 25 to 30 times 2015 earnings, Mr. Donville said. "If you're looking beyond resources and looking beyond financials, in the whatever-is-left category, for market caps over $1-billion, I think CGI is the single best name."

He estimates its forward price to cash earnings multiple at about 14 times. He's owned the name for years, but added to the position as recently as Monday, at about the $55-per-share mark.

Meanwhile, the company has been steadily paying down its debt and is in a position to consider making another big purchase, Mr. Donville said. "I get this free option because they're likely to do another acquisition. I say it should happen in the next 18 months."

The portfolio manager: Michael Decter, president at LDIC Inc.
The purchase: Imax Corp. (IMAX-N)
T

he strength of the upcoming film slate tends to drive this stock's movements. Last year wasn't great for the kind of blockbusters that play to Imax's appeal, but optimism has been high for the upcoming lineup.

"There's a slate of films this year and next year that have big Imax potential," Mr. Decter said, citing the next *Star Wars* instalment and the sequel to *Avatar*.
The company's shares reflected that sentiment. It finished 2014 virtually flat on the year, but started this year with a 15-per-cent appreciation by mid-February. At that point, some investors and analysts began to worry that the stock had risen too high. But they weren't counting on the popularity of *Furious 7*, particularly in China, Mr. Decter said.
By way of comparison, the 2012 superhero film *The Avengers*, which proved to be the third-highest grossing film of all time, took in a total of about $70-million (U.S.) in box office receipts in China, Mr. Decter said.*Furious 7*, meanwhile, took in almost that same amount in its first day.
Imax has been tapping into the explosive growth of the Chinese market by adding roughly 100 theatres a year, mostly in China, Mr. Decter said.

He said he could see upcoming releases doubling Imax's EBITDA (earnings before interest, taxes, depreciation and amortization) to about $200-million over the next 12 to 18 months.

After the early-year move in Imax shares, Mr. Decter was waiting for a more attractive entry point, but decided instead to buy the resilient stock throughout March at an average price of about $35. "We waited for a while, then we realized it wasn't going to dip. *Furious 7* wasn't supposed to be huge, but it's huge. It's really changed expectations," he said.

The portfolio manager: Jerome Hass, partner at Lightwater Partners
The purchase: DirectCash Payments Inc. (DCI-T)
In the fall of 2013, Veritas Investment Research cautioned investors about DirectCash, prompting Mr. Hass to examine the stock as a short candidate.

The report cited the possible overstatement of earnings through the understatement of maintenance capital expenditures. "I could understand how some alarm bells went off," Mr. Hass said, but he became convinced nothing was amiss in conversations with the company.

Veritas also addressed some business risks, including the eventual bankruptcy of Cash Store Financial, DirectCash's largest customer, as well as the rate of decline of the ATM business.

"Given that headwind you continually face, can you still develop your business and still be profitable?" Mr. Hass asked. "I think they can, partly just by growing the number of ATMs."

After watching the stock for several quarters, Mr. Hass was drawn to the numbers: a low valuation with an enterprise value to EBITDA ratio of about seven times, a dividend yield of 8 per cent, and a payout ratio of about 50 per cent.

He settled on an entry point of $16.50 (Canadian) and was just about to execute the trade last November, when "someone beat us to the punch," he said. The stock then rose to about $19.50 within one month.

"We declined to chase the stock. We waited until the share price drifted back at our target entry price," he said. It did that in late February and Mr. Hass built up a position in the stock between then and early April at an average price of $16.52.

Editors note: This is a corrected version. An earlier version had the wrong price for the average price at which Mr. Hass bought DirectCash stock.