

Why this mid-cap manager is buying Cineplex and trimming oil and gas exposure

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Jerome Hass, partner and portfolio manager at Toronto-based Lightwater Partners Ltd. *The Globe and Mail*

While most money managers are focused on large-cap stocks, Jerome Hass looks for opportunities in what he says is the overlooked small- and medium-cap segment of the market.

The partner and portfolio manager at Toronto-based Lightwater Partners Ltd. says these underfollowed stocks, with market valuations between about \$200-million and \$2.5-billion, are often mispriced and, as a result, undervalued by the broader market. His strategy is to choose companies with cheaper valuations that he believes have a catalyst that could lead to a valuation increase.

“The inefficiency of the mid-cap segment has actually gotten worse over time. So, it’s good to be in that sector because the opportunities based on that inefficiency have grown,” says Mr. Hass, who oversees two funds: **Lightwater Long/Short Fund** and **the Nimble Fund**.

“The downside is that the inefficiencies can persist for longer,” he adds, which means it could take more time for small- and mid-cap companies to generate returns compared to some of their larger-cap peers.

Lightwater’s Nimble Fund is down 4.9 per cent so far this year, as of April 30. Its five-year annualized return is 2.7 per cent. Its annualized return since inception in March, 2013 is 6.3 per cent. The performance is based on total returns, net of fees.

“We’re clearly disappointed by the low returns over the past decade,” Mr. Hass says. “But we just think that, at some point, people will start to recognize the value in these sectors.”

The Globe spoke with Mr. Hass about what he’s been buying and selling:

Name three stocks you own today and why.

Cineplex Inc. [CGX-T](#), the movie theatre and media company, is a stock we bought in 2020 and have been adding to, including earlier this week. Cineplex was one of the most overowned stocks among institutional investors in Canada and used to trade in the \$50 to \$55 range between about 2015 and 2017. I used to be a bear on the stock back then.

Then, the share price dropped to \$7 during the pandemic, and I no longer felt it was overvalued. The stock has admittedly taken longer to recover from COVID-19 than we thought. Most people dismiss the stock because of competition from streaming services and the belief that people don’t want to go to the cinema anymore. But the cinema industry has been around for decades and survived other near-death experiences. Going to the movies remains an inexpensive form of escapism and is certainly a lot cheaper than travel.

The North American film industry will produce 110 wide-release films in 2025 versus 95 in 2024. While that doesn’t necessarily translate into greater box office success, it’s like baseball: the more at-bats, the greater the chance of hitting a home run.

Mainstreet Equity Corp. [MEQ-T](#), the largest owner and manager of mid-market apartment buildings in Western Canada, is a stock we first bought in April, 2022 at \$126 and have continued to buy. The last purchase was about six months ago.

It’s a direct play on population growth in Canada and the scarcity of affordable rental housing. Regardless of economic fluctuations, there’s still a screaming need for affordable housing in this country. The company buys rundown rental units, refurbishes them and then rents them out at higher rates, but ones that are still relatively affordable. A big chunk of its units aren’t subject to rent control.

On average, it costs the company about \$125,000 per unit to buy the assets, whereas if you built a new one, it would cost about \$400,000. So, as long as that differential exists, there’s potential for it to add a lot of value. It’s also constantly buying new properties and there’s not a lot of competition for those assets from real estate investment trusts, pension funds or private equity.

What we also like about the business is that it hasn’t had an equity raise since it went public in 2020, which is a rarity in Canada. The company has been growing its cash flows by an average of 18 per cent a year just from operations.

Guardian Capital Group Ltd. [GCG-A-T](#), one of Canada's largest independent fund managers, is a stock we've owned since 2009. It's our longest-held position.

In the aftermath of the 2008 global financial crisis, Guardian's market cap was trading at a 25-per-cent discount to the value of cash and securities held on its rock-solid balance sheet. Fast forward 16 years, after a major asset sale in November, 2022, Guardian is sitting on \$1.2-billion of cash and securities (\$49.11 a share versus a \$40 share price) on its balance sheet, a 23-per-cent discount to its market cap. We don't see the discount widening beyond this level. In times of uncertainty, it's reassuring to have this safety net for Guardian investors. A 4-per-cent regular dividend yield also helps. We last added to our position in July, 2023.

Name a stock you sold recently.

Athabasca Oil Corp. [ATH-T](#) is a stock we bought in late 2022 and early 2023 and sold in January of this year for a gain of 121 per cent. We love the company, including that it's committed to returning 100 per cent of its free cash flow to shareholders via share buybacks, which led to its outperformance in 2024.

We sold it for macroeconomic reasons, as part of a broader reduction of our oil and gas exposure earlier this year. We were very concerned about the threat of tariffs on oil and gas companies. They've been exempt so far, but we assessed Trump's negative impact on the sector correctly. So, sometimes, it's good to be right for the wrong reasons.

This interview has been edited and condensed.