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Canaccord reveals its top 20 stock picks for the second quarter

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Strategist expresses cautious near-term forecast for markets

On Tuesday, Canaccord Genuity released its top stock picks for the second quarter of 2017.

There are 20 stocks that made the cut. The names include: seven energy stocks, three gold stocks, three consumer discretionary stocks, two technology securities, two REITs, and one stock from the financials, health care, and industrials sectors.

Canaccord's North American portfolio strategist Martin Roberge has a cautious near-term forecast for stock markets with an underweight allocation to stocks, identifying two key risks.

First, he warns of the U.S. Federal Reserve's tightening mode, stating, "The minor deterioration in market breadth in March suggests to us that equities have not fully discounted the risks associated with the Fed tightening cycle. We remind investors that over the last three tightening cycles, the third Fed hike occurred while U.S. nominal GDP growth averaged approximately 6.4 per cent versus around 3.5 per cent currently."

Second, he highlighted the Bank of China's tightening policy, stating, "The last U.S.–China synchronized tightening episode was in 2006 ... Despite improved growth visibility, the S&P500 and the S&P/TSX incurred corrections of 7.7 per cent and 12.7 per cent, respectively, through (the) summer (of) 2006."

Yet, despite his warning of potential market losses, he does see the potential upside for cyclical stocks, stating: "While not our baseline scenario, we believe there is a non-trivial risk that March volatility precedes another charge to new highs. Why? At their March lows, many resource stocks in the energy and materials sectors had already corrected 10 per cent to 20 per cent from their peak."

Here's the list of the firm's top 20 Canadian stock picks for the second quarter.

Consumer names

Amaya Inc. (AYA-T¹). This stock is a recent addition to the firm's Focus List. Analyst Kevin Wright anticipates the share price can rally to his target price of \$29 and is optimistic for 2017, stating "We believe that 2017 has started out on the right foot with an encouraging update on poker and new business lines that are showing strength to kick off the year. We are looking for 6.4 per cent year-over-year growth in revenue despite a 2.5 per cent erosion in the poker segment. Continued evidence of free cash flow generation and a deleveraging timeline would likely benefit the stock."

Cogeco Communications Inc. (CCA-T²). Analyst Aravinda Galappathige is forecasting double-digit free cash flow growth for the company. The company is a beneficiary of a strengthening U.S. dollar given that approximately 30 per cent of its revenue are denominated in U.S. dollars. Mr. Galappathige suggests that there is room for multiple expansion with the stock trading at a discount relative to its peers.

Gildan Activewear Inc. (GIL-T³). Analyst Derek Dley is forecasting solid earnings momentum for the company driven by higher cotton prices, new retail partners and increased manufacturing capabilities. Mr. Dley also notes that the stock is trading at an attractive valuation, at a discount to its historical multiple.

Energy sector

Enbridge Inc. (ENB-T⁴). Analyst David Galison has a price target of \$63. He highlights that the company "is executing its approximately \$26-billion secured growth capital program. The assets are expected to enter service between 2017 and 2019."

Keyera Corp. (KEY-T⁵). Mr. Galison has a "buy" recommendation on Keyera and his target price is set at \$46. He states: "Keyera is our top pick in the Canadian midstream sector as we believe the share price pullback and significant valuation discounts to its peers is unwarranted, providing good opportunity to get in a high-quality name." The stock's current dividend yield is 4 per cent. The analyst says: "Forecasts dividends to grow at approximately 9.2 per cent CAGR (compound annual growth rate) from 2016 to 2018 with a payout ratio below 60 per cent on our current outlook."

Painted Pony Petroleum Ltd. (PPY-T⁶). Canaccord Genuity is currently restricted on this stock.

Secure Energy Services Inc. (SES-T⁷). Analyst John Bereznicki is calling for significant potential upside in the share price with his \$14 target price, suggesting the company's core processing, recovery, and disposal (PRD) business segment "gives the company significant torque to improved activity levels, even in the absence of improved pricing." He anticipates the company may deliver acquisition growth from potential, "high-impact acquisitions and tuck-in opportunities."

Suncor Energy Inc. (SU-T⁸). Analyst Dennis Fong notes the company offers investors both cash flow growth combined with dividend growth stating: "We believe the company shows the highest organic production growth of the integrations while providing a significant free cash flow profile, complemented by a history of returning value to shareholders while remaining defensive with its integrated business structure."

TORC Oil & Gas Ltd. (TOG-T⁹). Analyst Anthony Petrucci notes this oil-weighted company's "best-in-class combination of netbacks, decline rates, and capital efficiencies." Mr. Petrucci has a price target of \$11.

Vermilion Energy Inc. (VET-T¹⁰). Analyst Dennis Fong believes: "The company is well positioned to capitalize on the volatile commodity price environment while showing growth through 2017 and into 2018. In addition to its strong balance sheet, the company boasts high netbacks and a diverse portfolio of international assets in Europe and Australia." Mr. Fong has a price target of \$65.

Financials

Fiera Capital Corp. (FSZ-T¹¹). Just one financial stock appears on the firm's Focus List. Analyst Scott Chan is forecasting the stock will deliver solid gains for investors with his target price set at \$16. Among the key drivers to lift the share price higher are asset under management growth, strong Fund performance, margin expansion and dividend growth.

Health care

ProMetic Life Sciences Inc. (PLI-T¹²). While the share price has languished over the past year, analyst Neil Maruoka believes the share price can more than double with his price target set at \$4.75. He notes a potential near-term catalyst for the stock stating: "We believe the filing of the BLA (Biologics License Application) for plasminogen is imminent; the application is supported by strong clinical data, Orphan Drug designation, and an Accelerated Approval pathway. As such, we see a strong likelihood that plasminogen could receive a Priority Review from the FDA (Food and Drug Administration), which should position the commercial launch of the drug in the second half of the year."

Industrial

Stuart Olson Inc. (SOX-T¹³). Analyst Yuri Lynk is forecasting solid returns for the company with his price target of \$7.50. The stock offers investors an 8-per-cent dividend yield, with a dividend that the analyst believes is sustainable. Mr. Lynk states: "In our view, Stuart Olson is well positioned to benefit from increasing levels of maintenance, repair, and operating (MRO) spending in the oil sands."

Gold stocks

Atlantic Gold Corp. (AGB-X¹⁴). Analyst Eric Zaunscherb has a "speculative buy" recommendation on this small-cap stock and a price target of \$1.50. The company is "our top Canadian gold developer pick. The company is bringing the Moose River Consolidation (MRC) gold project into production in low-sovereign-risk Nova Scotia."

B2Gold Corp. (BTO-T¹⁵). Analyst Rahul Paul has great expectations for the stock, setting his target price at \$5. He is forecasting solid production growth for the company, and highlights potential upside from exploration success. He notes that the company is highly leveraged to the price of gold "with a 10 per cent increase in the gold price driving a 26 per cent increase in our NAV (net asset value) estimate."

Yamana Gold Inc. (YRI-T¹⁶). Analyst Tony Lesiak says: "Yamana Gold is one of the best positioned senior producers to take advantage of a rising gold price environment. A 10 per cent increase in the price of gold (relative to our current forward curve-based price deck) increases our NAV by 28 per cent." His target price is \$6.25.

Technology stocks

Kinaxis Inc. (KXS-T¹⁷). Analyst Robert Young has a price target of \$80 for this growth stock. He argues that the company "is at the foothills of a large opportunity and, in the near and medium term, can sustain predictable 25 per cent top-line growth for several years with mid-20 per cent EBITDA (earnings before interest, taxes, depreciation and amortization) margins."

Wi-LAN Inc. (WIN-T¹⁸). The stock price is expected to continue to recover, according to analyst Doug Taylor, who has a price target set at \$3.50. Mr. Taylor notes the company's "resilient business model, extraordinary cash flow generation (16.3 per cent free cash flow yield) and attractive dividend yield (2.1 per cent), yet the stock is still cheap." He highlights that the stock is currently trading at a multiple of 3.1 times the forward EBITDA.

Real estate

Pure Industrial REIT (AAR.UN-T¹⁹) and **Pure Multi-Family REIT LP** (RUF.UN-X²⁰). Canaccord Genuity is currently restricted on both of these stocks.

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