

Uncovering the wealth creators

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One of the toughest jobs as an investor is telling the difference between hot stocks of the moment and solid long-term investments.

Often, the two are completely different. Shares of **Metro Inc.**, a grocery giant in Quebec and Ontario, were off 3.4 per cent for the year to midweek, while the S&P/TSX composite index gained 20.7 per cent. But as a wealth creator for shareholders, Metro is one of the top stocks in the index.

Rogers Communications Inc. has dropped about 10 per cent this year, and yet it's also a strong wealth creator. **CGI Group Inc.** was up a modest 5 per cent this year, while **BlackBerry Ltd.** was up 29.4 per cent. Guess which is the better wealth creator?

Let's define wealth creation — as used here, it refers to a kind of analysis called economic value added, or EVA.

"The simplest way of looking at EVA is to think of whether the company is generating wealth for shareholders over the long run," said Michael Cloherty of Montreal-based InoInvestor, a provider of financial data software.

Among InoInvestor's services is StockPointer, an online tool that uses EVA to rate Canadian and U.S. stocks.

EVA starts with a company's cost of capital, which means the interest paid on debt such as bonds plus the cost of a company's equity. StockPointer defines the cost of equity as being as the rate of return expected by investors from stocks of comparable risk.

Cost of capital is compared with a company's return on capital, a measure of profitability. If return on capital exceeds the cost of capital, then a company is generating wealth for shareholders. EVA measures the extent of this.

"The higher the EVA, the more value the company is able to generate for investors," Mr. Cloherty said.

The need for some perspective on stocks as wealth creators is especially important after a massive five-year stock market rally.

Investors need to know whether stocks are benefiting mainly from temporary factors and market momentum, or whether they truly generate value for shareholders.

StockPointer charges \$35 a year for a basic subscription to its online service, but agreed to provide several different screens for this column using a score out of 100 that is based on factors related to a stock's performance and risk profile.

Performance incorporates EVA and other factors, while risk looks at things such as business model variability, variations in share price and debt levels. StockPointer scores are expressed as a percentage, which means 100 is the ideal.

Mr. Cloherty said the best scores these days are in the 80 range.

The most effective way to interpret StockPointer scores is by comparing them to companies in the same industrial sector. For

THE VALUE GENERATORS

StockPointer is an online tool that analyzes stocks using a measure called economic value added, or EVA, which is designed to uncover the companies that are best at wealth creation. The firm's analysis is incorporated into a StockPointer Score expressed as a percentage (100 per cent is a perfect score). Here are six screens of Canadian and U.S. stocks provided by StockPointer. Share price data is to Aug. 13. For StockPointer tables scoring the highest-yielding stocks, go to tgam.ca/carrick-stockpointer.

TOP 15 STOCKS IN THE S&P/TSX COMPOSITE INDEX BY STOCKPOINTER SCORE

COMPANY	TICKER	SP SCORE
Metro Inc.	MRU-T	75%
Alimentation Couche-Tard Inc.	ATD.B-T	75%
Constellation Software Inc.	CSU-T	74%
CGI Group Inc.	GIB.A-T	73%
BCE Inc.	BCE-T	72%
ShawCor Ltd.	SCL-T	72%
Jean Coutu Group	PJC.A-T	72%
Power Financial Corp.	PWF-T	72%
Rogers Communications	RCI.B-T	71%
CIBC	CM-T	71%
Intact Financial Corp.	IFC-T	71%
National Bank Canada	NA-T	71%
Royal Bank Of Canada	RY-T	71%
Telus Corp.	T-T	70%
Tim Hortons Inc.	THI-T	70%

TOP 15 STOCKS IN THE S&P 500 INDEX BY STOCKPOINTER SCORE

COMPANY	TICKER	SP SCORE
Lorillard Inc.	LO-N	78%
Autozone Inc.	AZO-N	78%
DirectTV	DTV-Q	76%
Wal-Mart Stores Inc.	WMT-N	75%
Intel Corp.	INTC-Q	75%
Apple Inc.	AAPL-Q	75%
IBM	IBM-N	74%
Coach Inc.	COH-N	74%
Discover Financial Services	DFS-N	74%
Philip Morris Int'l	PM-N	74%
CF Industries Holdings Inc.	CF-N	73%
Ross Stores Inc.	ROST-Q	73%
Exxon Mobil Corp.	XOM-N	73%
UnitedHealth Group Inc.	UNH-N	73%
Petsmart Inc.	PETM-Q	72%

BOTTOM 15 STOCKS IN THE S&P/TSX COMPOSITE INDEX BY STOCKPOINTER SCORE

COMPANY	TICKER	SP SCORE
Torex Gold Resources Inc.	TXG-T	12%
Barrick Gold Corp.	ABX-T	16%
Turquoise Hill Resources Ltd.	TRQ-T	18%
Aurico Gold Inc.	AUQ-T	19%
Primero Mining Corp.	PT	21%
Pengrowth Energy Corp.	PGF-T	21%
NovaGold Resources Ltd.	NG-T	21%
Westport Innovations Inc.	WPT-T	22%
Argonaut Gold Inc.	ART	23%
BlackBerry Ltd.	BB-T	23%
HudBay Minerals Inc.	HBM-T	24%
Penn West Petroleum Ltd.	PWF-T	24%
RMP Energy Inc.	RMP-T	24%
Crew Energy Inc.	CR-T	24%
NuVista Energy Ltd.	NVA-T	24%

BOTTOM 15 STOCKS IN THE S&P 500 INDEX BY STOCKPOINTER SCORE

COMPANY	TICKER	SP SCORE
Vertex Pharmaceuticals Inc.	VRTX-Q	18%
QEP Resources Inc.	QEP-N	25%
Citigroup Inc.	C-N	26%
E*Trade Financial Corp.	ETFC-Q	27%
Boston Scientific Corp.	BSX-N	28%
Allegheny Technologies Inc.	ATI-N	28%
Genworth Financial Inc.	GNW-N	29%
Leucadia National Corp.	LUK-N	29%
Hudson City Bancorp Inc.	HCBK-Q	30%
NRG Energy Inc.	NRG-N	30%
Ventas Inc.	VTR-N	31%
Range Resources Corp.	RRC-N	31%
Plum Creek Timber Co. Inc.	PCL-N	31%
Kimco Realty Corp.	KIM-N	31%
Peabody Energy Corp.	BTU-N	31%

TOP PERFORMERS OF THE PAST 12 MOS. ON THE S&P/TSX COMPOSITE INDEX WITH STOCKPOINTER SCORE

COMPANY	TICKER	1-YR CHG	SP SCORE
Air Canada	AC.B-T	203%	51%
Semafo Inc.	SMF-T	147%	28%
Bankers Petroleum Ltd.	BNK-T	112%	46%
Secure Energy Services	SES-T	99%	39%
AutoCanada Inc.	ACQ-T	98%	45%
Linamar Corp.	LNR-T	90%	59%
RMP Energy Inc.	RMP-T	80%	24%
Canaccord Genuity Group Inc.	CF-T	80%	43%
Canadian Energy Svcs & Tech.	CEU-T	77%	46%
Paramount Resources	POU-T	76%	25%

TOP PERFORMERS OF THE PAST 12 MOS. ON THE S&P 500 INDEX WITH STOCKPOINTER SCORE

COMPANY	TICKER	1-YR CHG	SP SCORE
Southwest Airlines	LUV-N	117%	55%
Micron Technology	MU-Q	112%	57%
Alcoa Inc.	AA-N	99%	38%
Delta Air Lines Inc.	DAL-N	96%	52%
Avago Technologies	AVGO-Q	93%	59%
United States Steel Corp.	X-N	90%	37%
Under Armour	UA-N	89%	47%
Nefflix Inc.	NFLX-Q	72%	48%
Nabors Industries	NBR-N	71%	39%
Allergan	AGN-N	71%	54%



The simplest way of looking at EVA is to think of whether the company is generating wealth for shareholders over the long run.

Michael Cloherty
InoInvestor employee

example, there are 10 companies in the S&P/TSX capped consumer staples index.

The best wealth creators in this group as judged by StockPointer are **Metro**, **Alimentation Couche-Tard Inc.** and **Jean Coutu Group Inc.** In the financials index, **Canadian Imperial Bank of Commerce**, **Intact Financial Corp.**, **National Bank of Canada** and **Royal Bank of Canada** are joint leaders.

Largely absent from the list of top-15 stocks in the composite index by StockPointer score are energy and mining stocks.

Mr. Cloherty said companies in these sectors tend to have higher operating costs and lower

profit margins, and thus don't typically have high EVA scores.

Still, EVA can be used to find best-of-sector commodity stocks.

As of midweek, the top two energy stocks as ranked by StockPointer score, were **ShawCor Ltd.** at 72 and **Imperial Oil Ltd.** at 63.

The top-rated stocks in the materials sector were **Labrador Iron Ore Royalty Corp.** at 69, and **West Fraser Timber Co.** at 64.

StockPointer scores can help investors uncover strong wealth creators that are out of favour and thus possibly not trading at the same elevated levels as other stocks.

It can also help provide a reality check on high-flying stocks.

Consider Apple Inc. and **Intel Corp.** — they're both up sharply in the past year and get very strong marks from StockPointer.

The best-performing stock in the S&P/TSX composite index over the past 12 months had been **Air Canada**, which gets a middling score from StockPointer.

In fact, almost none of the past year's top-10 best performers in the composite index get a high score.

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