

Small is beautiful

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Source: GlobeinvestorGOLD

Tuesday, September 07, 2004

WINNIPEG (GlobeinvestorGOLD) — Warren Fenton's small-cap picks have pushed his portfolio of Canadian small-capitalization companies to the top spot among his peers.

His Acuity Pooled Canadian Small Cap Fund produced a 57.9-per-cent return for the 12 months ended July 31, far ahead of the 22.6-per-cent average return of Canadian small-cap funds and the 28.0-per-cent return of the BMO Nesbitt Burns Canadian Small-Cap Index. The \$5.0-million fund was the top performer among all 92 Canadian small-cap funds in the period. Mr. Fenton, a partner in Acuity Investment Management Inc. in Toronto has co-managed the \$5-million fund since inception in December, 2002.

"We pick stocks on a growth-at-reasonable-price model," Mr. Fenton explained. "We live for growth, but we want it at a good price. We want our companies to have a proprietary advantage that helps sustain their growth. We want a lot of free cash flow. And we want strong, if not always pristine, balance sheets."

Transat A.T. is a Montreal-based tour operator that leases a fleet of planes that carry Transat's colours. Shares purchased at an average cost of \$14.09 have recently traded at \$22.50. Transat is the dominant operator in Quebec leisure travel, Mr. Fenton said. The industry has recovered from 9/11, fresh management has refocused the company on its core tour-operating business, and it has cut costs, he added. The result is that earnings for the year Oct. 31, 2005 should rise to \$2 per share from \$1.27 a year earlier and 24 cents for 2003, he said. With a year, shares could trade at \$30, he suggested.

Rona Inc. is a Montreal-based home-improvement retailer with stores across Canada. Shares purchased at an average cost of \$28.96 have recently traded at \$31.19. Rona competes head-to-head with Home Depot Inc., the gorilla of the industry. But Rona has a different product mix that targets female shoppers who make the majority of home-improvement decisions, Mr. Fenton said. As a result, earnings for the year ended Dec. 31, 2005 should rise to \$2.40 per share from \$2.05 a year earlier and \$1.47 for 2003, he predicted. Within 12 months, shares could trade at \$38, he said.

FirstService Corp. is Toronto-based conglomerate that provides security services for commercial properties, franchising of home-related and property-management services such as College Pro house painting, California Closet, and other home-related services. Shares bought at an average cost of \$24.25 have recently traded at \$31. Each business has strong free cash flow, locked-in long term contracts, and good growth rates, Mr. Fenton said. As a result, earnings for the year ended March 31, 2005 should rise to \$1.55 (U.S.) per share from \$1.33 a year earlier and \$1.27 for 2003, he suggested. Within 12 months, shares should trade at \$40, he said.

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