Boeing to Pembina: Money managers`2020 stocks to watch

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What makes or breaks a stock can be hard to predict, because oftentimes the headlines just don't move the needle. That's as true this year as any other. Air Canada's stock has managed to weather the grounding of Boeing Co.'s 737 Max planes, while Facebook Inc. shares have rallied despite concerns about misinformation and user privacy. What happens next year, and the repercussions for equities, is anyone's guess. Below, BNN Bloomberg speaks with six Canadian portfolio managers about their year-end takeaways and predictions. They discuss their best and worst investment decisions for clients in 2019, and what stocks they're watching in 2020.Interviews have been condensed and edited for clarity.

Paul Harris, partner and portfolio manager, Harris Douglas Asset Management Inc.
Best investment decision for clients
"Air Canada. Many people felt that with slower growth, and possibly a recession looming, Air Canada would underperform as people tend to travel less and airlines offer more discounts during a downturn. Air Canada has, however, shown resiliency in the face of shocks this year (i.e. slower economic growth, weather-related issues and concerns with the Boeing Max 737). The stock trades at 10x forecasted 2020 earnings and a 40-per-cent discount to its U.S. competitors. We continue to like the company and believe that this discount will narrow over the next year. The company has $2.7 billion of excess cash, which will be used to either buy back stock or for strategic opportunities, which should be positive for the company."

Biggest investment regret

"One of our biggest regrets this year is not increasing our exposure to U.S. financials. A fear for many was that with lower rates and a flatter yield curve, U.S. banks would suffer substantial compression in net interest margins, which would negatively impact earnings. Although compression in net interest margins did occur, this did not have as big an impact on earnings as expected and banks were able to manage through this as other divisions (for example, credit cards, asset management, etc.) had better returns. U.S. banks continue to trade at cheap valuations on price-to-book value. We currently own Bank of America Corp. It continues to cut costs, grow its dividend and buy back shares."

Stock to watch in 2020

"Walt Disney Co. It is one on the most diversified companies in the media sector and in our view has the best content to compete against Netflix Inc. with Disney+ and Hulu. Since its launch four weeks ago, Disney+ has already generated US$20 million of revenue and has 22 million downloads on mobile devices alone. As the company rationalizes the Fox acquisition, we believe it will see better returns and more cost savings come through the bottom line." (Holds shares personally and for clients.)

Christine Poole, CEO and managing director, GlobeInvest Capital Management Inc.

Best investment decision for clients

"Purchasing Microsoft Corp. in November 2018 at the US$105 price level. The stock is one of our top performers for our clients, up over 52 per cent year-to-date. Microsoft was a new investment for our clients who have a growth- oriented investment strategy. Microsoft is well positioned to participate in the adoption and utilization of cloud technology by corporations and governments. Its growing recurring revenue stream, cost discipline and strong balance sheet are also appealing investment attributes. Microsoft remains a core technology holding in our client accounts."

Biggest investment regret

"Not purchasing S&P Global Inc. for our client portfolios. We like the duopoly-like structure in its credit rating business and its proprietary data assets, which give it strong pricing power for its product and services. The company also benefits from the rise of passive investing through its indices business and continues to develop its offerings to meet new investment trends such as Environmental, Social and Governance (ESG). So far, stock valuation has kept us on the sidelines but nevertheless, S&P Global remains on our watch list for an attractive entry point."

Stock to watch in 2020

"United Technologies Corp. provides products and services to building systems and aerospace industries around the world. Its four business segments are: Carrier, Pratt & Whitney, Aerospace Systems and Otis; plans to spin-off Otis and Carrier are expected to be completed by mid-2020, followed by a merger with defence company Raytheon Co. After these transactions, investors can own a top diversified aerospace company as well as companies who are leaders in their respective industries. We think the current valuation does not reflect the full growth potential of the three standalone companies." (Holds shares personally and for clients.)

Stan Wong, director of wealth management and portfolio manager, Scotia Wealth Management

Best investment decision for clients

"Facebook. The shares are up about 50 per cent this year despite concerns over regulatory hurdles, user privacy and security issues. Fundamentally, Facebook shares remain attractively valued, trading at 22x forecast earnings with a long-term estimated earnings growth rate of about 20 per cent. This gives the shares an estimated price/earnings to growth (PEG) ratio of only 1.1x. In 2020, Facebook's revenue is forecasted to climb to nearly US$86 billion. Only five years ago, the company's revenue was less than US$18 billion. With more than 2.45 billion monthly active users today, its ecosystem of the Facebook app, Instagram, Messenger, and WhatsApp are among the world's most widely used apps. Most importantly, Facebook's underlying ad revenue per user (ARPU) continues to increase given the underlying global shift of marketing and advertising dollars towards mobile and social-network ads."

Biggest investment regret

"Not adding to my position in Mastercard Inc. earlier in the year. Mastercard shares hit a new all-time high this month with the U.S. consumer remaining strong and the global economy still expanding modestly. Longer-term, Mastercard is well-positioned to benefit from powerful global secular trends as emerging economies grow and the use of electronic payments expands. Robust growth in e-commerce and consumer online shopping trends should also further boost Mastercard's revenue and earnings."

Stock to watch in 2020

"Boeing. After a difficult year of underperformance, Boeing shares have the potential to outperform in 2020 as the 737 MAX aircraft grounding likely lifts in the first or second quarter of the year. Earnings are projected to stabilize and top US$20 a share in 2020. Investors will likely turn their focus back to Boeing's extensive order backlog and reasonable stock valuation. Longer-term, the effective duopoly shared with Airbus in the large commercial aircraft industry is also an important advantage for Boeing shares." (Holds shares personally and for clients.)

Diana Avigdor, vice-president, portfolio manager and head of trading at Barometer Capital Management

Best investment decision for clients

"For the second time, Microsoft is our choice of the year. Consistency is key, and in Microsoft we have seen a continuous focus on its cloud business, a consistent transition into its subscription-based revenue model, and a cyclical growing-dividend story. Microsoft continues to outperform, with a year-to-date non-risk adjusted return of 55 per cent and clear path to sustainable growth. (Former CEO) Steve Ballmer's 20-year-old description of Microsoft as a "developer-focused company" still rings true today; in Microsoft we see the less common combination of both a good company and a good stock. The street has noted, and rightfully so, that both the Microsoft of 2000 and the Microsoft of today was/is the largest company in the U.S. One notable difference? The Microsoft of today is far cheaper, with a P/E of 28x, versus a P/E of 68x back in 2000."

Biggest investment regret

"What does strike me in hindsight is the defensive tilt we took across our portfolio through early November 2018 and into February 2019. While this perfectly aligned with our wealth-preservation mentality and indications made by our process, the length of time it took for us to rotate into a more cyclical position caused us to miss out on a portion of the 10-per-cent market rally that occurred from Dec. 26, 2018 into January."

Stock to watch in 2020

"In a short-duration environment such as we find ourselves in, it is always a challenge to make year-long predictions. A couple of things to note, however: We have an overall theme of reflation moving into 2020, with a portfolio that favours the financials sector at large, and credit cards in particular such as Visa Inc. and Mastercard. Commodities continue to be a litmus test for us as both a significant inflationary period and a weakening U.S. currency will favour the space. Technology stocks such as Microsoft will continue to be a feature. With a few loose threads finally tying up (regarding China-U.S. trade, Brexit uncertainties and an accommodative U.S. Federal Reserve), we are of the belief that we are entering both an extended period of consumer confidence and continued growth. (Holds shares of Visa, Mastercard and Microsoft for clients.)

Barry Schwartz, chief investment and portfolio manager, Baskin Wealth Management

Best investment decision for clients
“Apple Inc. Our Apple investment was planted in 2013 (pun intended) and has been our clients’ largest holding for many years. The stock is up over 70 per cent year-to-date before dividends and we continued to buy for new clients during the year. The stock is no longer materially undervalued. That said, we still feel there is more upside as the company launches new products and services all the time. We believe Apple will continue to reward shareholders with meaningful share buybacks and dividend increases for many years to come.”

Biggest investment regret
“There were a number of companies that we researched this year that we didn’t pull the trigger on. These were stocks in businesses where we clearly saw the growth trajectory improving in 2019. I am thinking of names like Sherwin-Williams Co., MSCI Inc. in the U.S. and Boyd Group Income Fund in Canada. We were waiting for these stocks to have a pullback, but they never did pull back. In fact, they keep on going higher. If you love and understand the business and the stock is trading at a reasonable multiple to earnings, don’t get cute by waiting, just buy the stock.”

Stock to watch in 2020
“Facebook. Even though its stock has had a terrific rebound in 2019, Facebook’s stock is as cheap as it gets. We see Facebook’s earnings growing by 30 per cent over the next two years as a result of significantly lower operating costs and continued growth in revenue per user. Facebook is finally monetizing its Instagram platform and just beginning to monetize WhatsApp and payments. Facebook is a toll road on global economic development. For many people around the world, Facebook is the Internet.” (Holds shares personally and for clients.)

Michele Robitaille, managing director, Guardian Capital Group
Best investment decision for clients
"Our best-performing stock this year was Brookfield Renewable Partners LP, up over 70 per cent. It is one of the few pure-play renewable companies in Canada and has benefitted from the strong flow of funds into ESG and climate- change-friendly companies. We continue to like the base business but feel the valuation has become fairly stretched and have been taking some profits, although we plan to maintain our core position."

Biggest investment regret
We looked at TMX Group Ltd. early in the year and although we liked the business, we were unclear on the catalyst that would take its multiple up to being in line with some of its global peers. As the company executed on its growth plans, particularly around Trayport, the shares rerated nicely.

Stock to watch in 2020
We think Pembina Pipeline Corp. will perform well in 2020. It is trading at a significant discount to both its historical average and its peer group because investors are waiting for Kinder Morgan to divest the large block of Pembina shares that it received for its Kinder Morgan Canada assets. Pembina’s base operations remain very strong, its balance sheet is strong, its payout ratio is reasonable and its growth pipeline of secured projects indicates very strong growth in the year ahead. (Holds shares for clients and personally through Guardians Capital’s funds.)