Still betting on Warren Buffett: Berkshire Hathaway and 9 other stocks that could break out in 2020

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PUBLISHED DECEMBER 30, 2019
FINANCIAL POST

Ten portfolio managers pick one stock in their portfolios they feel could outperform the pack this year

Bullish investors with a penchant for growth stocks were once again victorious in 2019 after the S&P/TSX Composite Index delivered its best performance of the decade and the S&P 500 gained 30 per cent. Market watchers are mostly expecting another solid year in 2020, but potential returns might be delivered by a different group of stocks than those that powered the market forward in 2019. The Financial Post asked 10 portfolio managers to pick one stock in their portfolios they felt could outperform the pack.

Barry Schwartz, chief investment officer, Baskin Wealth Management
The stock: Amazon.com Inc. (Nasdaq/AMZN)

By its own high standards, Amazon had a disappointing year since its share price only increased 15 per cent, underperforming the S&P 500. One of the reasons that happened, Barry Schwartz said, is because it spent US$800 million to bring one-day shipping to the market in April for Prime members. The company is now setting its sights on expanding the program internationally. Such initiatives are eating into Amazon's bottom line and it's not expected to post solid earnings for the next three quarters, Schwartz said. Even though the company is approaching a US$1-trillion market cap, its stock is still undervalued at current levels. If it surprises investors and reverses course, he said, the stock could quickly rally to US$2,500 in 2020 from about US$1,900 near the end of December.

Norman Levine, managing director, Portfolio Management Corp.
The stock: Berkshire Hathaway Inc. Class B (NYSE/BRK.B)

Norman Levine thinks of Berkshire Hathaway as the "ultimate value stock." The Omaha, Neb.-based conglomerate has been mired in a holding pattern for the past two years, trading between US$185 and US$220, but finally "stuck its nose up" in late November, he said. Value stocks have grossly underperformed momentum stocks for the past three years, Levine said, but investments in the former have picked up, hinting that a full market shift toward them could occur in 2020. Should that rotation occur, Berkshire Hathaway could be set up for a big year, although the manager warns that a temporary selloff could occur should vice-chairman Charlie Munger, 95, or chief executive Warren Buffett, 89, pass away.

Rick Ummat, co-founder, Jemekk Capital Management
The stock: Liveperson Inc. (Nasdaq/LPSN)

Millennials don't enjoy speaking on the phone, Rick Ummat said, and Liveperson offers them an alternative. The New York-based company's software uses artificial intelligence-powered chatbots to solve simpler queries through text message or escalate them to a live agent. Companies such as Grupo Financiero Santander México and Huawei Technologies Co. Ltd. are already using the technology and Ummat said there's potential for wider adoption once others realize there's no need to tie up scant human resources with issues that can be rapidly solved by a bot. Liveperson, Ummat said, announced that it's scaling back on profitability in order to invest during 2020, so there might be some churn in the investor base. But he has seen this pivot happen before, and when it's done right, as Facebook Inc. did, the results are spectacular. “It could be a multi-compounding story for years to come,” he said.

Mike Archibald, portfolio manager, AGF Investments Inc.
The stock: Parex Resources Inc. (TSX/PXT)

The Canadian oil sector's struggles over the past five years have been well-documented and have forced a majority of producers to take on crushing amounts of debt in an attempt to continue to grow. Mike Archibald said that isn't the case for Parex Resources. The Calgary-based company has about $300 million in cash on its balance sheet and no debt, he said. “I would characterize them as having the cleanest balance sheet of any North American producer.” The excess cash it generates has been used on buybacks and Parex has already committed to purchase another 10 per cent of its stock in 2020. The company's valuation, like most oil stocks, is cheap, even though its stock generated a return of more than 40 per cent return in 2019. With global growth poised to pick up in 2020, Archibald said, oil stocks may finally break out and Parex could be in line for another year of solid growth.

Mike Newton, portfolio manager, Scotia Wealth Management
The stock: Open Text Corp. (TSX/OTEX)

The Toronto Stock Exchange may have its limitations when it comes to technology plays, but Mike Newton said one of its few software stocks is just about “bulletproof.” Open Text, which provides information management software that allows businesses to manage workflow, is still overlooked by the investment community. “It's a free-cash-flow machine,” he said, pointing to the $1 billion in cash the company reported in its first-quarter 2020 earnings at the end of October. That pile could allow Open Text to be even more active in the M&A space after buying cloud security software maker Carbonite Inc. for $1.42 billion in 2019. Newton sees double-digit dividend growth in 2020 for Open Text and a 20 per cent increase in free cash flow.

David MacNicol, founder, MacNicol & Associates Asset Management Inc.
The stock: Diamond Estates Wine and Spirits Inc. (TSXV/DWS)

Diamond Estates Wine and Spirits has twice filed for bankruptcy in its brief history, but David MacNicol isn't concerned it is heading for a third. Diamond Estates is his play on wine becoming available for purchase at convenience stores in Ontario. The company's stock is trading just above 20 cents, but MacNicol expects that may change due to a reverse split in 2020. The best thing that has happened to the Niagara-on-the-Lake, Ont.-based producer, he said, is that it has partnered with Lassonde Industries Inc. and will have access to 140 people on the agri-food company's sales team to try to ensure that Diamond Estates wine is more widely available. The partnership will give Diamond a larger sales force at its disposal than its two central competitors, Andrew Peller Ltd. and Artera Wines Canada Inc., combined. Investors should look for the company's stock to double in 2020, MacNicol said.

Ryan Bushell, president, Newhaven Asset Management Inc.
The stock: Inter Pipeline Ltd. (TSX/IPL)

Ryan Bushell would be content if Inter Pipeline's stock remained flat in 2020 since his clients would still net a 7.5-per-cent return through the Calgary-based company's dividend yield. But with the high dividend comes a fair amount of risk. Inter Pipeline is building a petrochemical facility for 2021 and has $3.5 billion tied up in the project, which will act as a 40-per-cent lift to EBITDA once it's completed, he said. The facility is still a gamble and has added to the $3.1 billion in debt Inter Pipeline reported at the end of September. The company is looking to derisk the project by selling its storage and gas business in the United Kingdom, which Bushell said could yield $1 billion. If the sale is successful, it may act as a catalyst for the stock. But should Inter Pipeline encounter any delays or problems with its new facility, investors can expect its stock to slide.

Christine Poole, chief executive, GlobeInvest Capital Management Inc.
The stock: Home Depot Inc. (NYSE/HD)

Christine Poole has for years deployed the same strategy of targeting fundamentally sound large-cap stocks that have been victims of a recent decline and then riding them back up to their next plateau. She had been waiting on this pattern to occur so that she could add Home Depot to the portfolios of new clients and finally got her chance. After reaching its 52-week high of US$239.31 in November, Home Depot's stock dropped 10 per cent when the company cut its full-year sales growth guidance. That slip, Poole said, was due to a US$11-billion investment plan that will hit its peak next year and, as a result, soften margins. Otherwise, both the United States economy and the home-improvement sector are still healthy and will continue to grow next year, she said, leaving Home Depot in a good position to benefit.

Andrew Simurda, vice-president, JCIC Asset Management Inc.
The stock: Manulife Financial Corp. (TSX/MFC)

Manulife Financial under chief executive Roy Gori has significantly derisked its business to the point that its business model and performance have become a lot more predictable, Andrew Simurda said. Its balance sheet has improved and is now carrying excess capital, which could be used in 2020 to re-enter the M&A market, particularly in Asia where its riskiest assets lie, or continue to aggressively buy back stock due to what Simurda said is a discounted valuation. Based on price-to-earnings and price-to-book valuations, he said Manulife's stock could reach $33.50 next year, a 27 per cent increase from about $26 near the end of December. There are risks here though: a strengthening Canadian dollar and continued tensions in Hong Kong could derail Manulife's outlook.

Jason Del Vicario, portfolio manager, Hillside Wealth Management, HollisWealth
The stock: Boyd Group Income Fund (TSX/BYD.UN)

Boyd Group Income Fund has "the most beautiful 10-year chart you've ever seen," Jason Del Vicario said. The Winnipeg-based collision repair shop operator's stock has grown to more than $200 from $5.45 during those years, with just one deep selloff at the end of 2018. In 2020, the income trust plans to convert to a corporation, which Del Vicario expects will result in more attention from foreign investors, given that any limitations on them imposed by the income trust structure will be dropped. At that point, he said, investors may begin to realize that Boyd still only has a free cash flow yield of six per cent, which makes it quite cheap. "This might sound ridiculous but … we could see another 50 per cent rise in the security in 2020."