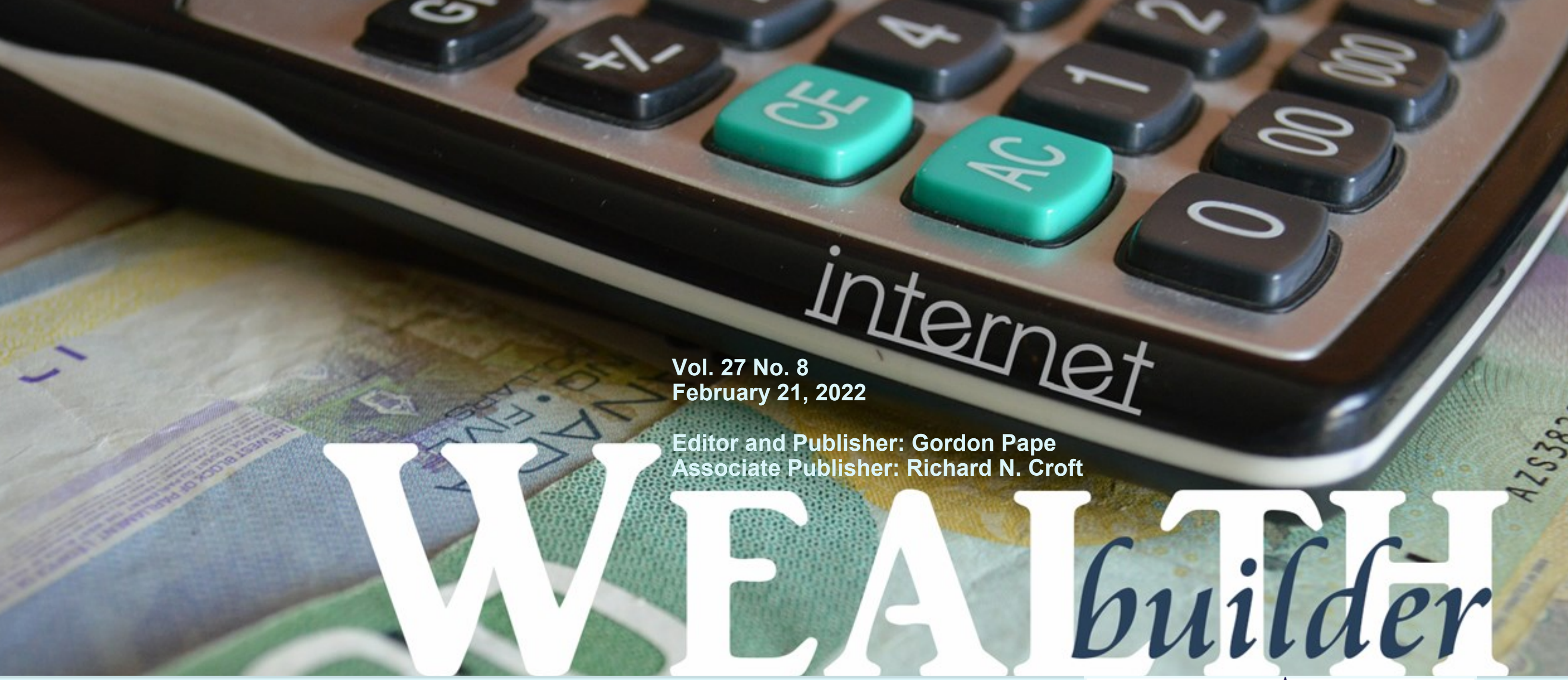

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SECRETS OF INVESTING SUCCESS

By Gordon Pape, Editor and Publisher

Some people become millionaires by investing. Others wallow, never getting ahead while complaining the stock market is fixed.

What's the difference? I can sum it up in three words: commitment, discipline, and patience.

It sounds simple. It's not. Let's delve a little deeper.

Commitment. Successful investing is not simply about making an annual contribution to an RRSP, although that's never a bad idea. It's about deciding to improve your financial life, and committing the time, resources, and money to making that happen.

Novice investors may have a limited amount of cash available to get started. That's not an excuse for putting it off. Most financial institutions have investment programs designed for beginners with only small amounts to put aside. On-line brokerage minimum account sizes are low; some have a zero minimum.

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CELEBRATING 25 YEARS OF BUILDING WEALTH
25th ANNIVERSARY

Success—continued from page 1...

Time may be a more inhibiting factor than available cash. We're all busy. There are never enough hours in a day. It's an often-used argument for doing it next month, or next year – or never.

If you're going to build a successful portfolio, you must devote the hours needed to create and manage it. That means researching the stocks and/or funds you want to own or having a competent professional do it for you. It means reviewing your holdings regularly (at least once a quarter) and asking yourself in each case if you would buy it now. It means staying abreast of national and international events and understanding how they affect your portfolio. It means getting involved and staying involved.

There are many resources to help you – newspapers, books, magazines, TV, and the internet. If you use a financial advisor, his or her guidance could be invaluable – a full-service broker is backed by a team of highly trained analysts who produce regular reports on stocks and sectors. Help is always available. Use it.

Discipline. The most successful investors are those who make a plan and stick to it – assuming the plan is basically sound. That's not always easy. During times of market stress, the temptation may be strong to get out of equities and sit in cash until things stabilize. But market timing doesn't work, as repeated studies have shown. If you have quality investments, they'll recover. Instead of selling, take advantage of the bargains to buy more.

Have the discipline to reinvest incoming cash flows as they're received. That's a suggestion from Dale Harrison, a retired senior financial analyst and portfolio manager with Vancouver's Philips, Hager and North, with whom I have been exchanging ideas about this subject. Most investment portfolios throw off cash each month from interest and dividends. Don't let that money sit idle. Reinvest it as soon as possible. When available, use dividend reinvestment plans to make the job easier.

Discipline includes making regular cash additions to your portfolio – an automatic deduction plan at your bank is a good starting point. It also means establishing a schedule for portfolio reviews and keeping to it. And it means developing a strategy and implementing it, for example maximizing contributions to registered plans if cash is available.

Patience. It's possible to get rich quick. Those who took large positions in Shopify when the price was below $25 made huge returns in a few years, even with the recent price drop. But that's rare. In most cases, wealth is built gradually over time.

Rushing the process can often lead to bad decisions, such as buying overhyped penny stocks or selling blue chips because of a price dip. Build a quality portfolio and wait. It will pay off over time.

Follow Gordon Pape on Twitter @GPUpdates and on Facebook at www.facebook.com/GordonPapeMoney

GORDON PAPE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Pfizer NYSE: PFE

Originally recommended on April 13/20 (#22015) at $35.38. Closed Friday at $48.50. (All currency figures in US dollars.)

BUY

Background: Pfizer was the first company (along with partner BioNTech) to have a COVID vaccine approved for general use and that vaccine has proven to be highly effective with minimal side effects. Pfizer is a leading international pharmaceutical company that can trace its history back more than 170 years. Its business units include Oncology, Inflammation & Immunology, Rare Disease, Hospital, Vaccines, and Internal Medicine.

Performance: The shares hit a 52-week high of $61.71 in December but have been drifting down since despite beating earning expectations in their fourth quarter report.

Recent developments: The company reported fourth quarter revenue of $22.8 billion, up 105% from the year before. The growth was fueled almost entirely by sales of Comirnaty, the commercial name of the vaccine, and Paxlovid, its COVID treatment pill. For the full year, Pfizer reported revenue of $81.3 billion, up 95% from $41.7 billion in 2020.

Fourth quarter adjusted income was $6.3 billion ($1.08 per share, fully diluted). Analysts were looking for $0.87 per share. That was a gain of 156% from $2.4 billion ($0.43 a share) in the same period of the prior year. For the full fiscal year, adjusted earnings were $25.2 billion ($4.42 per share) compared to $12.7 billion ($2.26 per share) in 2020. Obviously, the pandemic has been good for business.

CEO Dr. Albert Bourla goes beyond that. He believes the success of the COVID vaccine and treatment "have not only made a positive difference in the world, but I believe they have fundamentally changed Pfizer and its culture forever. Everywhere I look in the company, I see colleagues who are inspired by what we have achieved to date and filled with determination to be part of the next breakthrough that could change the world for patients in need."

Dividend: The company increased its quarterly dividend by a penny, to $0.40 a share ($1.20 per year). The shares yield 2.5% at the current price.

Outlook: The company released a very bullish outlook for 2022. Revenue is

Continued on page 4...

Gilead Sciences NDQ: GILD

Originally recommended on March 2/20 (#22009) at $69.36. Closed Friday at $61.05. (All figures in US dollars.)

HOLD

Background: Gilead is an American biotechnology company that researches, develops, and commercializes drugs. The company focuses primarily on antiviral drugs used in the treatment of HIV, hepatitis B, hepatitis C, and influenza. It also has a drug that is used for treating patients with COVID.

Performance: The stock hit a 52-week high of $74.12 in late December but has been losing ground ever since.

Recent developments: The company released fourth quarter and year-end results that missed expectations and disappointed investors. Quarterly revenue of $7.2 billion was down 2% from the prior year, due mainly to decreased demand for its COVID drug Veklury. It was down 30% compared to the same period in 2020. However, for the full year revenue was up 11% to $27.3 billion, thanks to strong sales for Veklury in the early part of 2021. The fourth quarter fall off does not bode well for 2022.

Earnings per share fell dramatically in the fourth quarter to $0.30 compared to $1.23 for the same period in 2020. The decrease was primarily driven by a $1.25 billion charge related to a legal settlement and a charge of $625 million related to the Arcus Biosciences, Inc. collaboration opt-in.

The earnings picture for the full year was more encouraging. Gilead reported earnings per share of $4.93, compared to just $0.10 in 2020. The company said higher product sales contributed to the earnings growth.

Dividend: Gilead announced that the company's board has declared an increase of 2.8% in the quarterly cash dividend, to $0.73 per share ($2.92 per year). The next dividend is payable on March 30 to stockholders of record at the close of business on March 15. The yield at the current price is 4.8%.

Outlook: The company is projecting total product sales of between $23.8 and $24.3 billion in 2022. That's below the $27.3 billion reported in 2021. Earnings per share are expected to be between $4.70 and $5.20, which is on a par with 2021.

Action now: Hold. The stock doesn't seem to have much upside at this stage, but the 4.8% dividend yield makes it worth waiting for a while.

Pfizer—continued from page 3...

expected to be in a range of $98-$102 billion, which includes $32 billion from Comirnaty and $22 billion from Paxlovid. Adjusted diluted earnings per share are expected to be between $6.35 and $6.55. Retiring CFO Frank D'Amelio said the forecasts, if achieved, "would represent the highest level of annual revenues and adjusted diluted EPS in Pfizer's long history."

Action now: Buy. The price pull-back offers an entry opportunity. The p/e ratio is a reasonable 12.58.

Stryker Corp. NYSE: SYK

HOLD

Originally recommended on July 18/14 (#21427) at $80.44. Closed Friday at $248.14. (All currency figures in US dollars.)

Background: Stryker Corp. is a Fortune 500 medical technology company with a market capitalization of about $97 billion. It is based in Michigan but operates in 100 countries and employs more than 33,000 people. The company has three main product lines. The orthopedics segment provides hip and knee implants. The medical surgical segment sells surgical equipment, including robots and other navigational aids, as well emergency medical equipment and disposable products. The neurotechnology segment provides products for brain and skull surgery.

Performance: The stock has been very choppy over the past year. It hit a low point of $227.84 in March 2021, then rebounded to $281.16 in September. It is currently trading around the mid-point of that range and is up 208% from my original recommendation.

Recent developments: The company reported fourth quarter and year-end results at the end of January.

For the final quarter of fiscal 2021, Stryker recorded net sales of $4.7 billion, up 10.3% from $4.3 billion in the same quarter of 2020. For the full year, sales were $17.1 billion, up 19.2% from $14.4 billion in fiscal 2020.

Fourth quarter net earnings were $662 million ($1.73 per share, fully diluted), up 16.5% from $568 million ($1.49 per share) in the prior year. For all of 2021, Stryker recorded earnings of just under $2 billion ($5.21 per share), compared to $1.6 billion ($4.20 a share) in the prior year.

"We delivered a strong year of financial results, despite the ongoing challenges of the pandemic," said CEO Kevin Lobo. "Organic sales growth of over 7% versus 2019, coupled with double-digit adjusted EPS growth and excellent cash flow performance were all noteworthy achievements, as was the excellent integration of (recently acquired) Wright Medical. We continue to be well-positioned for future growth."

Dividend: The company raised its quarterly dividend by 10.3% in December, to $0.695 ($2.78 a year). The stock yields 1.3% at the current price.

Outlook: Stryker expects the pandemic to continue to weigh on returns in 2022. Organic net sales growth is projected to be in the range of 6% to 8%. Adjusted net earnings per diluted share is forecast to be in the range of $9.60 to $10. The company says it expects continued unfavorable price reductions of approximately 1% this year.

Action now: Hold.

Thermo Fisher Scientific Inc. NYSE: TMO

BUY

Originally recommended on April 26/21 (#22117) at $488.09. Closed Friday at $551.87. (All currency figures in US dollars.)

Background: Based in Waltham, Massachusetts, Thermo Fisher is a leading manufacturer of scientific instrumentation including laboratory and health monitoring equipment. It also provides software and services to the healthcare, biotechnology, and pharmaceutical industries, as well as to governments and academia.

Performance: The shares hit an all-time high of $672.74 in late December but have been in a downtrend since.

Recent developments: The company reported an indifferent 2021 fourth quarter, which spooked investors a little. But results for the full fiscal year were encouraging.

Revenue for the quarter grew 1% to $10.7 billion, versus $10.55 billion in the same period of 2020. For the full year, revenue grew 22% to $39.21 billion in 2021, versus $32.22 billion in 2020. COVID-19 response revenue was $9.23 billion.

GAAP diluted earnings per share (EPS) in the fourth quarter was $4.17, versus $6.24 in the same quarter of 2020. GAAP operating income for the quarter was $2.54 billion, compared with $3.07 billion in the year-before quarter. GAAP operating margin was 23.7%, compared with 29.1% in the fourth quarter of 2020.

Despite the weak fourth quarter, GAAP diluted EPS for the full year increased 22% to $19.46, versus $15.96 in 2020. GAAP operating income grew to just over $10 billion, compared with $7.79 billion the year before. GAAP operating margin increased to 25.6% in 2021, compared with 24.2% in 2020.

Dividend: The quarterly dividend is $0.26 a share ($1.04 per year) to yield a tiny 0.2% at the current price. The company also has a share buyback program in place.

Outlook: During the conference call that followed the earnings release, the company projected significant increases in both revenue and earnings this year.

CEO Mark Casper said the company expects a 7% growth in revenue, to $42 billion this year, based on strong organic growth and COVID-related testing revenue. Earnings per share guidance was an increase of $1.07 to $22.43.

Action now: Buy. Take advantage of the price dip to open a position.

GLENN ROGERS'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Shopify TSX, NDQ: SHOP

Originally recommended on Feb. 22/16 (#21608) at C$28.34, US$20.57. Closed Friday at C$837, US$656.88.

HOLD /BUY

Background: Shopify is a cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. Merchants use the software to design, set up, and manage their stores across multiple sales channels, including web, mobile, social media, marketplaces, brick-and-mortar locations, and pop-up stores. The company is based in Ottawa.

Performance: The stock has been trending down since mid-November when it was trading at over $2,000. It fell off a cliff last week, losing $193.71 on Wednesday and another $101.82 on Thursday.

Comments: This is what happens when a run-away high-flyer tells investors that it won't keep growing at the same breathtaking rate. Shopify released fourth quarter and year-end results last week that beat estimates on revenue and earnings.

But one line from the report hit investors right between the eyes: "our financial outlook anticipates revenue growth for the full year 2022 that is lower than the 57% revenue growth achieved in 2021".

Lower growth? Sell! Trading volumes were three to four times normal as people headed for the exits.

Never mind the fact that adjusted net income for 2021 grew by almost 66% to $814.4 million ($6.41 per share, figures in US dollars) – this for a company that a couple of years ago was still reporting losses. Or that the company says its revenue growth this year will still be rapid and outpace the overall growth of ecommerce.

If there's a silver lining to this story, it's that the sell-off has made the stock more affordable and reduced the p/e ratio to a more sensible 28.79.

Action now: Wait for the stock to stabilize, then take a position.

RYAN IRVINE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Aritzia Inc. TSX: ATZ, OTC: ATZAF

Originally recommended on April 8/19 (#21914) at C$18.24, US$13.67. Closed Friday at C$54.16, US$42.36.

SELL HALF

Background: Aritzia is an innovative design house and fashion retailer catering to women. The company offers its products under the Wilfred, Babaton, and TNA brands. Aritzia operates over 105 stores across Canada and the US and has an established eCommerce platform.

Performance: The stock has been on an uptrend for most of the past year, hitting a high of $60.64 in mid-January before retreating to the current level.

Recent developments: Third quarter 2022 net revenue increased by 62.9% from the prior year. eCommerce revenue increased by 46.9% to $148 million, comprising 32.6% of net revenues. Adjusted net income was $0.61 per diluted share, compared to $0.29 per share in the same quarter the year before.

Conclusion: Aritzia has performed very well in a difficult three-year period for retail, which included a global pandemic and unprecedented supply chain pressures. The stock has now gained almost 200% since our IWB recommendation, significantly outperforming celebrated Canadian retailers such as Lululemon Athletica Inc. (NDQ: LULU), which is up 85%, and Canada Goose Holdings Inc. (TSX, NYSE: GOOS), down 40% over the same period.

During its third quarter, Aritzia delivered very impressive top-line performance across geographies and channels. Advancements in its digital capabilities and industry leading infrastructure contributed to growth. Positive operating leverage and lower markdowns offset expedited freight costs, driving EBITDA margin improvement year-over-year. Adjusted net income of $0.61 significantly exceeded analysts' consensus of $0.40. Guidance for the fourth quarter was also strong.

Generally, we consider fashion retail and eCommerce to be a tough business and have made only one recommendation in the Canadian sector over the past four years. We have been very happy with the outperformance of Aritzia and continue to

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Aritzia—continued from page 8...

see it as a long-term winning name in a limited Canadian retail sector.

The stock no longer trades at a significant discount to peers (outside of LULU) as it did when we originally recommended Aritzia. The company trades at about 31 times our fiscal 2021 earnings estimate, compared with its historical average of 21.1 times.

We like the business, execution, and skilled management team, but the current valuations appear stretched. Given the excellent gains, we advise IWB readers to take half their original investment off the table and hold the remaining position for 2-3 years. We will continue to provide updates going froward.

Action now: Sell half. Hold remaining position long-term.

Firan Technology TSX: FTG, OTC: FTGFF

HOLD

Originally recommended on Nov. 7/15 (#21540) at C$2.11, US$1.77. Closed Friday at C$2.52, US$2.00.

Background: Firan is an aerospace and defense electronics product and subsystem supplier to customers around the globe. It has two operating units: FTG Circuits is a manufacturer of high technology, high reliability printed circuit boards. Customers are leaders in the aviation, defense, and high technology industries. It has operations in Toronto, Chatsworth, California, Fredericksburg, Virginia, and a joint venture in Tianjin, China.

FTG Aerospace manufactures and repairs illuminated cockpit panels, keyboards, and sub-assemblies for original equipment manufacturers of aerospace and defense equipment. It has operations in Toronto, Chatsworth, and Tianjin.

Performance: The stock hit a high of $3.50 last June but has since pulled back to the current level.

Discussion: FTG's shares have performed comparatively well through the global pandemic at a time when one of its key end markets (aerospace) faced unprecedented challenges, including air travel grinding to a halt. In 2021, sales were 22% lower at $79.4 million versus $102.4 million in the prior year. This reduction is commensurate with reduced revenues from the company's largest customers in the commercial aerospace sector.

It was a much tougher year than the company expected for a few reasons. First, the COVID-19 pandemic was sustained through all of 2021 as the Delta and Omicron variants arose and spread around the globe. This impacted total demand by about 8%.

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Firan—continued from page 9...

FTG has utilized the proceeds of government assistance to partially offset the negative earnings impact of reduced revenue during the pandemic, while maintaining its highly skilled workforce. The company believes that the availability of its workforce will prove to be a key asset during the pending recovery of the commercial aerospace market, especially given the tight global labour markets.

On a positive note, in the fourth quarter US air travel continued to rebound. FTG believes it is nearing 90% of pre-pandemic levels. Given this, and barring any unforeseen setbacks, FTG anticipates an improving market going forward.

There are many predictions regarding the length of the time it will take to recover, but all of them indicate a strong commercial aerospace market in 2022. FTG's end customers are mostly showing return to sales growth in their latest quarters. The leading indicator for FTG's business is bookings for new orders. In each quarter of 2021, bookings increased. In the fourth quarter, bookings were up 42% compared to the same quarter in the prior year.

FTG continues to hold a strong balance sheet. It increased its net cash on the balance sheet to $17.9 million, an increase of $5.3 million in 2021, showing the cash generating nature of the business. Management stated that the M&A activity is picking up and foresees several acquisition opportunities that could fit with either of the company's businesses, but particularly on the circuit side.

Action now: FTG trades at low relative valuations, including trailing enterprise value/EBITDA of 5.87. We expect challenges in the commercial aerospace business near-term. The recovery will take 6-24 months to fully flow through to FTG. Long-term, the company is well positioned, but given near-term uncertainty we maintain a Hold rating on the stock.

Espial Group TSX: ESP

SOLD

Originally recommended on Jan. 31/15 (#21505) at C$2.52, US$1.92.

Takeover: In May 2019, Espial Group was acquired by Enghouse (TSX: ENGH) at $1.54 in an all-cash deal valued at $56.5 million. Shareholders would have received the offered price in their brokerage accounts.

Action now: Sold.

Check your account to ensure you received payment.

XPEL Inc. NDQ: XPEL

HOLD

Originally recommended on June 4/18 (#21821) at $3.32. Closed Friday at $65.94. (All figures in US dollars.)

Background: Founded in 1997 and incorporated in Nevada in 2003, XPEL has grown from an automotive product design software company to a global provider of after-market automotive products, including automotive surface and paint protection, headlight protection, and automotive window films, as well as a provider of complementary proprietary software.

In 2018, the company expanded its product offerings to include architectural window film (both commercial and residential) and security film protection for commercial and residential uses. In 2019 XPEL further expanded its product line to include automotive ceramic coatings.

Performance: The stock has traded within a fairly narrow range since last August.

Recent developments: Third quarter revenues increased 48.6% to $68.5 million as compared to $46.1 million in the prior year. Organic revenue growth was 38.4%. Gross margin was 35.7% compared to 34.8% in the third quarter of 2020.

Net income grew 26.1% to $8.3 million, ($0.30 per diluted share), compared to $6.6 million ($0.24 per share) in the same quarter of 2020. Excluding acquisition integration and other one-time costs, net income increased 35% to $8.9 million ($0.32 per share).

Conclusion: XPEL has performed remarkably well over the last four years. Share price performance has increased 1,886% since our IWB recommendation. In terms of financial performance. the company surpassed consensus revenue estimates in the third quarter, despite supply chain challenges and difficult macroeconomic conditions.

The company's brand positioning and proprietary DAP software have helped solidify relationships with installers. XPEL is moving into adjacent markets and new geographies with its targeted acquisition strategy.

Near-term risks include XPEL's exposure to significant supply chain shocks, considering that the company depends exclusively on third-party suppliers. Historically, XPEL's business depends heavily on car inventory. Recent acquisitions in the automotive windows film business, such as PermaPlate Film and One Armor, make the company more reliant on new car sales, which are temporarily weak due to supply chain issues.

Despite the pressures on margins due to inflation, XPEL continues to have pricing power. It increased prices in 2021 and management remains confident that the company will be able to increase gross margins from the historical 34% to 35% range, to approach 40% by mid-year.

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Hammond Power Solutions

BUY

TSX: HPS.A, OTC: HMDPF *Originally recommended on Jan. 28/13 (#21304) at C$8.60, US$8.58. Closed Friday at C$12.57, US$9.16.*

Background: Founded in 1917, Hammond Power designs and manufactures custom electrical engineered magnetics, standard electrical dry type, cast resin and liquid filled transformers. The company offers converter transformers, distribution transformers, furnace transformers, multi-pulse transformers, power transformers, standard electrical transformers, regulating transformers and specialty transformers. The company also offers pad mounted transformers and unitized substations. It serves the oil and gas, mining, steel, waste and water treatment, solar, EV, and wind power-generation industries. Hammond Power has manufacturing plants in Canada, the United States, Mexico, and India.

Performance: The stock reached a 52-week high of $13.31 earlier this month before pulling back.

Recent developments: Third quarter 2021 revenues increased 22% to $95.5 million from $78.1 million in the prior year. Order backlog increased 29%. Net earnings increased 14% in the quarter and 9% year-to-date. Earnings per share increased to $0.34 in the quarter and to $0.93 year-to-date. The increase in sales was driven by a combination of greater sales volume and higher selling price realization, partially offset by a weaker US dollar relative to 2020.

Conclusion: Hammond Power has performed reasonably well increasing from the $8.60 level from our original IWB buy recommendation to its current price of $12.57. The company has a strong dividend which has been increased a number of times and currently yields 2.7%.

Action now: We do not expect high growth from the business. However, current valuations remain attractive. These include a trailing p/e of 9.92 and a forward p/e of under 9. The dividend is solid. As such, we maintain a Speculative Buy rating for patient long-term investors.

XPEL—continued from page 11...

XPEL trades at about 57 times expected 2021 earnings and about 40 times expected 2022 profits. Both are premium valuations, but with a growth rate expected to be 40% in 2022, the premium is not far out of line.

Action now: Given these valuations, the supply chain risks, and depressed new car sales numbers, we see the stock at fair value near-term. As such, we maintain our Hold rating. If management continues to create strong cash flow, execute organically, and make accretive acquisitions, the company will outpace the market over the next 2-5 years. As such, long-term growth potential remains.

Questor Technologies TSX-V: QST

SELL

Originally recommended on Dec. 3/18 (#21842) at $3.51. Closed Friday at $1.51.

Background: Questor is an environmental clean technology company. It designs, manufactures, and services waste gas combustion systems in Canada and the United States. The company sells, rents, and services waste gas incineration systems. It offers its solutions for various oil and gas projects, as well as for landfill biogas, syngas, waste engine exhaust, geothermal and solar, and cement plant waste heat.

Recent developments: Third quarter 2021 revenue increased 54% to $1.6 million compared to $1.1 million for the same period in 2020. The improvement was driven by a 2% increase in rental utilization compared to the prior year and $0.5 million higher equipment sales revenue.

Questor reported a loss of $0.5 million for the three months ended Sept. 30, 2021, which was an improvement from the $1 million loss for the same period in 2020.

The company continues to focus on managing costs. It benefited during the quarter by a $0.3 million tax refund related to the carry back of tax losses. Questor maintained a strong financial position as of Sept. 30, including cash reserves of $15.3 million and an undrawn $1 million revolving demand loan facility and $5 million capital loan facility.

Conclusion: Prior to the collapse in energy prices following the severe demand destruction brought on by COVID-19, Questor had a solid, cash rich, cash producing business. Rental utilization for the company continues to be significantly impacted by the trend that started mid-2020 when oil and gas customers started drastically cutting costs during the COVID-19 pandemic and one of the company's large customers filed for bankruptcy protection. This led to significant revenue declines and the company has posted losses as its primary end customers (oil & gas companies) have been in survival mode.

Not surprisingly given the conditions, the share price has been cut in half. While the balance sheet remains cash rich with zero debt, the current negative cash flow does not meet our criteria for investment.

Action now: With the increase in energy prices through 2021 and into 2022, the potential remains for its energy customers to resume spending and the business is seeing initial positive signs in activity. One could hold for a recovery if there was a strong belief that energy prices in the current range are sustainable.

Given the fact that Questor no longer meets our positive cash flow criteria, we rank it as a Sell, opting to redeploy capital in businesses with a higher degree of certainty in terms of growth.

Meritage Hospitality Group Inc. OTC: MHGU

SELL

Originally recommended on May 15/17 (#21719) at $14.85. Closed Friday at $21.45 (all figures in US dollars).

Background: Meritage Hospitality operates quick-service and casual dining restaurants. The company operates restaurants under the Wendy's, Twisted Rooster, Stan Diego Baja Taco Kitchen, Freighters Eatery & Taproom, and Wheelhouse Kitchen & Cocktails brand names. Meritage operates roughly 345 restaurants in Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Missouri, Mississippi, North Carolina, South Carolina, Ohio, Oklahoma, Tennessee, Texas, and Virginia.

Performance: This is a thinly traded over the counter stock that tends to move within a narrow range. It's up 44% since it was recommended.

Recent developments: Revenues for 2021 increased 11.8% to a record $577.1 million compared to $516.2 million in the prior year. Net earnings increased 15.5% to $18.2 million compared to $15.8 million the year before. Consolidated EBITDA increased 1.6% to $47.5 million. The company's dividend increased to $0.32 per share compared to $0.14 per share in the prior year.

Conclusion: Meritage was recommended to IWB readers with the stock trading at $14.85 and has performed reasonably well in a difficult time for restaurants due to COVID-19 related restrictions. The company doubled its dividend in 2021 and now yields 1.5%.

Valuations remain relatively reasonable with the stock trading at 12-13 times earnings. Near-term growth will continue to be affected by COVID-19 but is projected to increase in the second half of 2022 as restrictions ease. Overall, 2022 sales growth is expected in the 10-15% range. We see the company trading near fair value at present.

Action now: We recommend readers Sell and re-deploy the money in one of our higher conviction Buy recommendations.