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StockHouse News DeskBy Chaya Cooperberg ([ccooperberg@stockhouse.com](mailto:ccooperberg@stockhouse.com))

## Possible Doubles, Triples Among Six Small Cap Picks

**Canada's small cap market offers great opportunities for investors with many stocks set to double and even triple, says fund manager Bob Boaz. His six top picks include Itemus, Shore Gold and penny-play Conac Software.**

**Toronto, ONT, May 12 /SHfn/** -- Bob Boaz, manager of the University Avenue Canadian Small Cap Fund, has a knack for picking the little stocks with big returns. His fund posted one-year returns of 123.16% as of April 30, beating the Nesbitt Burns Canadian Small-Cap Index by more than 100%. He looks for companies that have strong revenue growth potential and at least near-term potential for earnings. "The companies that I own that aren't generating earnings right now basically have to generate earnings by next year or else they're not included in my portfolio," he says. His strategy is to seek out the small plays that have the possibility of significant contract wins that would drive the share price higher.

It seems to be a current trend among Canadian small caps that news released into this lackluster market does little, if anything, to boost share prices. This could be because many news releases are expected and already factored into the price, suggests Boaz, and good contract news will continue to drive gains.

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"You'll see with many of these small cap companies as we go forward that the good ones will continue to have contract awards that will send the stocks higher," he says. "They're small and can exhibit tremendous growth potential just with one contract award."

For the next three months, the small cap high-tech sector will continue to be extremely volatile and the down market will continue, he says, but that doesn't mean investors should head for the exit doors or languish on the sidelines. He says that after the inflation and rate hike fears pass, and certain companies announce better than expected earnings or big contract wins, the NASDAQ will regain its bullish footing. Companies in the Canadian tech sector that have solid financials will follow suit and offer investors opportunities for profits.

"In the short term, if investors focus on good quality, high tech companies that are either making money or expected to by next year and have reasonable valuations, it's best to stay in the market because many of these companies will announce a contract that could give you an upside of 15-20% upside in the stock price very quickly," he says.

Looking out six months, the fund manager predicts the interest rate jitters will have subsided. "If that's the case, then you're going to see the rebirth of the small cap market in Canada, especially the high-techs, because there's still a lot of investor interest and very high growth new technology companies that will make investors a lot of money." He believes investors' appetites for small cap tech stocks will return because that is where the huge growth potential still lies.

The fund has an approximately 40% weighting in technology, and Boaz suggests the investor with a higher than average risk tolerance have a similar weighting in their portfolios. "I've seen investors want to invest a 100% in high tech and I think that's too much," he cautions. "There are certainly a lot of companies out there-non-high tech small caps-that warrant some consideration by investors." A weighting of 40% will give a portfolio the necessary "torque" to propel growth, but still minimize the amount of downside risk.

His top two holdings, for example, are not in the high-tech sector. One is **Canbras Communications [V.CBC]**, a provider of broadband cable television, Internet and data services to Latin America. Bell Canada International controls a majority interest of the company, at 54.7%. The company has experienced about 40% growth per year in terms of subscriber levels, says Boaz. "It's just a major growth area in Brazil and other areas of South America." He bought the stock around \$8 and says it has been "a nice stabilizing force in the portfolio." The company recently started trading on the Toronto Stock Exchange.

The second among his top ten holdings is **Shore Gold [V.SGF]**, a mineral exploration company with properties in Saskatchewan. **De Beers [DBRSY]**, **Falconbridge [T.FL]** and **Kensington Resources [V.KRT]** all have holdings in the area. Shore Gold is among the few "concept" plays that Boaz has included in his portfolio. "We tend to pick stocks based on a quantitative exercise and then add a small proportion of stocks that are more concepts," he says.

Shore Gold is a well-managed company, Boaz explains, which has discovered kimberlite deposits that contain diamonds and macrodiamonds, which have one dimension greater than 0.5 mm. "The company is basically waiting on new assay results in the area to confirm that they do have a commercial deposit." He believes the stock, which has been trading around \$1 since pulling back from a March breakout to \$2, could see \$3 once the new assay results come through in about three to four weeks. "The rumor mill suggests they're much better than what was previously expected in the market, so I think that will start to permeate through into the stock price within the next few weeks," he says. "I'm quite optimistic it will make money for us."

**Itemus [T.ITM]**, a new technology incubator that was a mining company named Vengold just a few months ago, is also a favorite of the fund manager and is his third largest holding. "I like the fact that they're rapidly adding high-tech companies, and that should continue as we go forward," he says. "They do have good management which is the most important thing." From a penny mining play, the stock spiked to \$4.50 in early March, and then proceeded to hit a bottom of \$1.39 a month later. Boaz believes the now \$2 stock could go above \$3 in a three month time frame.

Boaz considers **Ezenet Corp. [V.EZE]** a cheaper alternative to well-known e-commerce software developer **724 Solutions [T.SVN]**. Ezenet offers technology and software solutions for the financial and banking industry, including online software, network services, full Internet capabilities and enhanced security. While 724 concentrates on front-end applications, as opposed to the back-office functionalities Ezenet provides, Ezenet will soon be moving into the wireless solutions side as well. Boaz isn't concerned about the competition Ezenet will be facing, since he believes the market will easily be large enough for more than one contender.

The stock soared above \$33 in early March on rumors of a takeover by 724. Boaz says that particular speculation is still floating around, but he is valuing the company based on its solid fundamentals. "The growth path on these guys is still pretty enormous. Going forward next year and in 2002 you'll see some good earnings generation." He believes the stock now trading between \$13 and \$14 will see its old highs within a year.

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Recently, Boaz added oil and gas services company **Integrated Production Services [V.IPL]** to his fund. He considers it a high-tech among regular service companies as it has the ability

to remotely monitor well sites. The company released its first quarter results on May 9, the first reporting period after being created through the amalgamation of Reliance Services Group Ltd. and OTATCO Inc. on April 5, 2000.

"That's a company that can easily generate \$0.50 cash flow this year, and quite possibly higher, and it's only trading around \$2," he says. "[Integrated Production Services] is making money and chances are it will make even more money next year." It posted consolidated revenues of \$14,887,488, with EBITDA of \$4,252,990 or \$0.32 per fully-diluted common share. Operating cash flow was \$3,982,311 or \$0.30 per fully-diluted common share. "The numbers are absolutely wonderful," he says.

Boaz is also confident in the company's management team. "With current high oil and gas prices, you're going to see these guys add to the client base and they have the capacity to fulfill any major expansion in the client base." Over a time span of six to 12 months, the stock "is an easy double," he says.

Trading around a mere 30 cents, **Conac Software [V.COT]** is Boaz's penny pick. The company develops financial management systems for the construction and engineering industries, and Boaz has had it among his top holdings for a few months. "It's going to see tremendous growth over the next couple of years. It represents great potential going forward."

While the stock has bounced around--from 43 cents in late February to \$1.18 in early March and back again--it will easily return to former highs once the market realizes its strong upward growth curve, he says. It is a company that "makes money and will make more money going forward." The upside will stem from contracts in the US, where the company is expanding and where the construction industry is "enormous."

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