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'Best Buys' from leading analysts

Analysts follow as many as 20 stocks, most of which are rated "buys." Of those buys, an analyst has one or two special favorites seen as most suitable for new buying. This column is devoted to those one or two favorite "best buys."

To run a company today, a CEO would do well to have a gilt-edged MBA, right? Of course. Yet, a degree from the school of hard knocks wouldn't hurt either. In fact, in the oilpatch, it can be be downright essential.

Consider the case of John Dielwart, who helms **ARC Resources Ltd.** (ARX-TSX, $24.99), a mid-cap energy play based in Calgary.

Mr. Dielwart and his executive team, says David Graham, have not only worked in the oilpatch when prices are high, but they've also slogged through it when prices were low. So, they know what do do when things get bad.

Perhaps just as important, the ARC crew has managed to maintain the company's distributions to unit holders.

"They've never tried to shoot the lights out," says Mr. Graham, of the company's payout record.

Oil likely to hit US$100 a barrel

"Instead, they've tried to have steady increases every year and have tried to come through on their guidance."

True, with 40 per cent of its output in gas, ARC isn't a pure play on oil, a commodity with stronger pricing power. Indeed, petroleum, now US$92 a barrel, is likely to hit $100 in 2011, Mr. Graham says.

Yet, gas isn't necessarily a bad thing to have. Indeed, because ARC has concentrated most of its gas holdings in the British Columbia portion of the Montney play, it benefits from that region's comparatively low extraction costs, Mr. Graham says.

Moreover, ARC has hedged about 49 per cent of its total output. So, it's protected from a sudden downdraft in oil and gas anyway. In the meantime, with a dividend of $1.20, ARC now offers a strong yield — in fact, it's 4.8 per cent.

Net income jumps more than 16 per cent

"So, you've got a stock with good production, good reserve life and a good yield," says Mr. Graham, adding that ARC should benefit if oil and gas prices go up.

For Mr. Graham, vice president, equities, for CIBC Global Asset Management Inc. in Toronto, ARC Resources is a best buy. His 12-month price target is $26; the consensus estimate of ARC's 2011 and '12 net earnings, $1.13 and $1.23, respectively.

For the three months ended Sept. 30, ARC's net income jumped to $81 million, or $0.30 a unit, from $69.6 million, or $0.29 a unit, for the similar period in 2009.

Revenue, not surprisingly, was also higher, increasing 22.7 per cent to $293.6 million, or $1.10 a unit, while operating cash flow grew 32.3 per cent to $166.2 million, or $0.62 a unit.

Mr. Graham may have a soft spot for an outfit like ARC that's a pillar of Canada's oil and gas industry. But he also favors a company like **Manulife Financial Corp.** (MFC-TSX, $17.55) that's a heavyweight in Canada's insurance and investment sector.

He admits that because Manulife failed to hedge its liabilities, it got burned in the stock market meltdown. The company also took it on the chin from falling interest rates.

But Manulife, Mr. Graham says, has taken steps to fix its problems. For one thing, it has stopped selling income products with a guaranteed rate of return.

Moreover, through insurance policies, the company has moved to reduce the risk of being battered by another drop in the stock market or by a fall in interest rates.

Then, too, interest rates are getting close to the point where they'll bottom out and go back up. So, Manulife should do well, given that life insurers tend to prosper when rates rise.

All told, Mr. Graham sees Manulife doing better over the coming months. In fact, he thinks that as the economy improves, analysts will steadily raise their earnings expectations for the company.

Company's fortunes tied to interest rates

For Mr. Graham, Manulife is also a best buy, one with a 12-month price target of $20 and consensus EPS estimates for 2011 and 2012 of $1.66-$1.70 and $1.80, respectively.

In addition to individual life insurance, Manulife offers group pension plans, variable annuities, wealth management products and lending services. Although based in Canada, the company is also active in both the U.S. and Asia.

For its third quarter, Manulife's net loss deepened to $966 million, or $0.55 a share, from $193 million, or $0.12 a share, for the similar period in 2009. Funds under management, however, grew to $473.9 billion from $436.6 billion.

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