

MFC's Whitehead Sees Gold M&A Potential

By Monica Gutschi
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TORONTO (Dow Jones)--Ted Whitehead has been bullish on resources for some time and while he remains so, he has been tweaking his strategy.

Until recently, his focus in the materials sector had been on gold producers. Now, he's much more interested in exploration and development companies, adding Rainy River Resources Ltd. (RR.V) and US Gold Corp. (UXG) to the Manulife Growth Opportunities fund he manages.

"We think it's not just the large caps that have to look for gold," Whitehead says. "Mid-caps do too, and they are going to look at up-and-coming companies that have deposits." Companies like Rainy River, US Gold, Rubicon Minerals Corp. (RBY) and San Gold Corp. (SGR.V) "are building their ounces in the ground," Whitehead says, and in the process, becoming more attractive as takeover candidates. As well, he says, these small gold exploration companies aren't fully priced, so there's potential upside along with the M&A outlook.

On the energy side, Whitehead is betting growing demand from emerging markets such as India and China will drive prices higher over time. Although he doesn't see oil returning to US\$150 a barrel soon, he does think it could shortly move up to the US\$70-US\$90 range from the current US\$60-US\$80.

He's particularly optimistic about oil exploration companies with international operations, such as Pacific Rubiales Energy Corp. (PRE.T), Gran Tierra Energy Inc. (GTE), and Petrominerales Ltd. (PMG.T). All are active in Colombia, which has a favorable fiscal regime among other advantages, and all are building out their reserves and production.

As manager of the Manulife Growth Opportunities fund, which invests primarily in small- to mid-cap Canadian equities, Whitehead has to hold an opinion on commodities. Energy and materials make up about 54% of his benchmark, the BMO Nesbitt Burns Blended Small Cap index.

“As the materials and energy sector goes, so will our fund go,” he says. The fund rose 58% in 2009 after losing 40.5% in 2008, as commodity prices rebounded from the multi-year lows touched during the recent financial crisis.

But commodity prices alone don’t tell the full story. Whitehead uses a combination of quantitative and fundamental analysis to choose about 85 names from the 700 securities he runs through a series of screens. His quantitative model focuses on estimate revisions, earnings surprises and price momentum, which are the variables he finds matter most in small-cap investing. His fundamental analysis includes about 400 meetings with company managers a year.

Whitehead also keeps an eye out for specific catalysts, events or changes that could take a stock to the next level. For example, the recent launch of molybdenum futures contracts on the London Mercantile Exchange should bode well for Thompson Creek Metals Company Inc. (TC), one of the world’s largest moly producers.

The goal is to own the top companies in each sector, Whitehead says, which should result in a portfolio with “better characteristics” than the index.

Over the past 10 years, the fund has reported average annual returns of 11%, compared to 8.6% for the index and 6.55% for its peer group. ■

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