make and deliver 3,650 new transit buses in 2017, a 4% increase from the year before.

The motor coach industry is more uncertain. Low-cost flights are eating into intercity bus travel in the U.S., which accounts for about 37% of industry revenues, says CEO Soubry. However, as more people retire, the charter and tour segment, which accounts for 55% of the market, is picking up. "The aging population is offsetting the losses in the point-to-point segment," he says.

The key to New Flyer's earnings growth, though, will be its implementation of Lean Six Sigma methods in MCI's manufacturing operations and its maintenance and repair business. MCI is only just starting the process. Trevor Johnson thinks Soubry can cut about $25 million in costs there over the next two years. Jeff Mo says that if the cost-cutting is successful, New Flyer's bottom line could grow by double digits over the next few years.

Investors should be mindful of valuations, however. New Flyer's shares have been trading at about 18 times its current earnings recently, which isn't cheap, but is in line with the broader stock market. The firm's order backlog is at record levels, and Johnson says there are a lot of easy things the company can do to improve margins. "[The valuation] is a bit aggressive, but we feel good about the backdrop," he says. The company's dividend yield—about 2% at recent share prices—is also modest, but Soubry says he hopes to raise the payout.

Soubry is also going to keep looking for acquisition opportunities, perhaps expanding overseas. "We may look outside of North America for some diversification," he says. "This Winnipeg company is growing up."

/Bryan Borzykowski

Buy Side

Tim McElvaine

Deep-value manager Tim McElvaine buys a lot of beaten-up stocks that scare the bejeezus out of even some of his most courageous rivals. How does he master his fears? Pricing

You could call Tim McElvaine the Grim Reaper of investments. The Victoria-based deep-value manager, who runs the McElvaine Investment Trust, invests in many companies that are seemingly on their deathbeds, but then he hangs on until they turn around. Unlike traditional value managers who want to buy good companies cheaply, he's often scouring the market for crappy businesses that still have at least some upside. "I deal in nightmares, not in dreams," he says.

It's a niche, for sure, and in today's expensive stock markets, "there are a lot less of us than there used to be," McElvaine says. But deep-value investing can still be lucrative if you have patience and can stomach volatility. He wants his stocks to double in value within three to five years. One of his current holdings, solar-powered LED light maker Carmanah Technologies, has climbed by 225% since he bought it in 2013.

The key is to buy something cheap enough that if things don't work out, there's still upside built in. McElvaine looks for companies that are selling at 50%—or even less—of what he figures they're really worth, a big margin of safety. And before buying in, he'll often wait for an adverse event that will cause other investors to sell off, like a dividend cut, a bad quarter of earnings or an unexpected CEO change. "I get into the ring when everyone else is throwing in the towel," he says.

The danger, of course, is that a company could be a value trap, rather than a value bargain. So, McElvaine searches for a catalyst for a turnaround, and he likes to see a relatively clean balance sheet, still-decent free cash flow and prominence in the industry. He also likes it when directors own company stock. "I want them to be aligned with investor interests," he says.

Ideally, nothing else will go wrong. "If you can protect yourself from the bad things that might happen," says McElvaine, "then the good things will take care of themselves." /BB

MCELVAINE'S TOP STOCKS

Coty Inc. (NYSE: COTY)

In 2015, this New York-based beauty company purchased Procter & Gamble's beauty business, which gave it access to a bevy of brands, including Max Factor. However, Coty issued a lot of stock to finance the deal, and many of the brands were tired, says McElvaine. An upcoming brand refresh, and insiders' recent purchase of $100 million (U.S.) in stock, gives him confidence in the future.

Ralph Lauren Corp. (NYSE: RL)

Revenue has sagged because the iconic brand sells most of its goods in department stores, which have been struggling. Then, in February, Stefan Larsson, who had been CEO for just two years, quit after reportedly clashing with the founder. But growth overseas, a strong e-commerce presence and a re-emphasis on the core brand should be a big help.

Sprott Resources Holdings Inc. (TSX: SRHI)

Until February, this Toronto-based holding company was essentially a closed-end fund. It's now considered an operating company that actively invests in various Canadian resource businesses. Shares should climb as commodity prices rise and new board members energize the company, now that founder Eric Sprott has left.

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