3 Stocks for Warren Buffett Fans

Description

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As the CEO of **Berkshire Hathaway** and arguably the world's greatest investor, Warren Buffett is one of the most widely followed businessmen of all time. Of course, that *doesn't* mean we should simply replicate his portfolio. But we can certainly explore the traits that Buffett loves in his own stocks as a template for finding our own promising portfolio candidates.

So we asked three top Motley Fool contributors to each pick a stock they think Warren Buffett fans might appreciate. Read on to learn why they chose **Corning** (NYSE:GLW), **Phillips 66**(NYSE:PSX), and **USG** (NYSE:USG).

A long-term oriented tech-titan

Steve Symington (**Corning**): I know that Buffett likes the businesses underlying the stocks he owns to have staying power. Corning fits that bill. Founded way back in 1851, this company knows a thing or two about using innovation to survive and thrive in our fast-changing world.

Shares of the glass technologist even touched a fresh 10-year high last month, after the company reported strong first-quarter 2017 results. Quarterly sales, meanwhile, increased 14.5% year over year to nearly $2.5 billion. That performance was led by 34% growth in its optical communications segment as telecom giants invest heavily to build out their next-gen networks. And specialty materials revenue rose 32%, as dozens of leading original equipment manufacturers of electronics incorporate Corning's high-margin Gorilla Glass products into their smartphones and tablets. On the bottom line, earnings rose almost 20% to $407 million, and earnings per share increased 39.3% to $0.39 — with the latter bolstered by Corning's ambitious share-repurchase program.

More specifically on capital returns, Corning unveiled a capital-allocation framework in late 2015 that includes a goal of returning at least $12.5 billion to shareholders through dividends and share repurchases by 2019. At the same time, Corning is on track to invest $10 billion in research, development, and engineering over the same period to capitalize on new growth opportunities and extend its industry leadership.

This attractive combination of focused innovation and capital returns has been effective at driving decades of market-beating gains for Corning investors. And I think that's something Warren Buffett fans can appreciate.

A bevy of Buffett's favorite traits

Jason Hall (**Phillips 66**): Through the end of the first quarter, Buffett's Berkshire Hathaway owned 80.7 million shares of Phillips 66, more than 15% of the company and worth almost $6.3 billion at recent prices.

Why should you like Phillips 66? It has a lot of Buffett characteristics, starting with its competitive moat. Refineries are crazy-expensive to build (it's been decades since a new one was built in the U.S.) and have very limited growth prospects, but if operated well and maintained to a high standard — two things Phillips 66 has proven it does — they can generate significant cash flows.

And that brings us to the second Buffett trait: excellent management, particularly with capital allocation. The company's leadership uses excess cash flows — as well as low-cost debt — primarily to expand its petrochemicals and midstream assets. These are growth industries, as U.S. oil and natural gas assets continue to produce more of the country's and world's energy and chemical needs and are a better place to use capital than expanded refining to generate incremental per-share returns. Few other refiners have this optionality — another advantage for Phillips 66.

Finally, Phillips 66 is one of the best out there at capital returns. The company has steadily increased its dividend — just announcing an 11% raise recently — and yields 3.6% at recent prices. The company has also made share buybacks a priority, having repurchased almost 18% of shares outstanding since 2012.

Put it all together, and that's a company with big competitive advantages, putting its cash to work in three ways to deliver big per-share value to investors for the long term.

Building a stronger foundation

Dan Caplinger (**USG**): Warren Buffett is famous for finding promising companies and making major investments in them, and USG has been one of Buffett's holdings for a long time. USG makes sheetrock and other building products, and Buffett started buying USG stock in 2000, building up a stake that now represents more than a quarter of the outstanding shares of the company.

What makes USG particularly unusual is that it managed not only to survive a bankruptcy filing but also to thrive after emerging from reorganization. The issue that USG faced was asbestos liability, which threatened to crush the company's financial prospects. The bankruptcy plan provided for a nearly $4 billion reserve to pay asbestos liability claims, with Buffett stepping in to help reassure investors that the deal could get done. The stock climbed back higher, and despite fundamental business troubles in the aftermath of the housing bust, the recent recovery in housing has helped USG bounce back.

Buffett hasn’t been entirely happy with USG, saying at the recent shareholders’ meeting that “USG overall has just been disappointing because the gypsum business has been disappointing.” But if materials prices strengthen, then USG will have a chance to return to favor in investors’ minds.

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