These 2 Companies Have Averaged Profit Margins of Over 27%!

Description

Sales growth creates a lot of hype and can propel stock prices to incredible valuations, despite a lack of profitability. However, value investors know that, ultimately, if a company is not profitable, then it will run into trouble sooner or later. Below are two stocks that have achieved incredible profit margins of over 27% in the past few years and could make great additions to your portfolio. Whether you want to balance out some growth stocks or just need some blue-chip stocks, these shares are excellent candidates to fill those needs.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) has posted profit margins averaging over 27% in the past four years, thanks in large part to high gross margins that have averaged 65%. With selling, general, and administrative (SG&A) expenses making up just 22% of revenue, Canadian National Railway has been left with 43% of its revenue after its most significant cost items. Many companies don't even achieve gross margins of 43%, let alone have that much remaining after SG&A expenses.

Canadian National Railway is an efficient operation, and although last year sales dropped 4.6%, revenue has increased by 14% in three years. These are not high growth numbers by any means, but you also wouldn't normally expect high growth from a company that has over $12 billion in revenue every year either. However, in the company's most recent quarter, sales rose by over 17%, and that growth may continue as the economy grows.

The stock has produced returns of over 11% year to date and offers investors a small dividend of 1.6%. Although the current price might be a bit expensive with the shares trading with a price-to-earnings multiple of ~20 and a price-to-book multiple of five, as the economy continues to grow, the company will see profits grow as well, which will improve both of these valuation metrics.

Allied Properties Real Estate Investment (TSX:AP.UN) has seen even higher profit margins, which have totaled almost 70% of sales over the past several years. REITs typically are more profitable,since there are less costs that are involved in running these types of businesses. Gross margins have averaged 58%, and SG&A has averaged a minuscule 2.8% of sales, allowing for more than half of the company's sales left to cover depreciation and other operating expenses.

In addition to strong profit margins, the company has been seeing steady growth in its top line as well. Last year, Allied Properties saw its revenue grow by 6.7%, and in three years, sales have increased by 29%. Sales growth for a company with strong profit margins means a lot of that sales growth makes it to the bottom line, thereby boosting earnings per share and the value of the stock itself.

Net income grew a remarkable 27% last year and is up over 36% in three years. Year to date, the stock has increased over 5% in price, and the dividend yields 4%, providing investors an excellent incentive to hang on to the stock over the long term.

The shares currently trade at a multiple of seven times earnings and just 1.1 times its book value, making its price very attractive and better priced than its peers.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
3. TSX:CNR (Canadian National Railway Company)

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