The Best Buffett-Type Stock to Buy

Description

With so many high-quality companies available to investors, the difficulty for long-term buyers is not so much in finding the great companies, but finding them at a price that is attractive. In the past year, investors finally witnessed the famous investor, Warren Buffett, enter Canada to complete a transaction when he invested in an alternative lending company.

The good news for investors is that the Oracle of Omaha still has a significant amount of cash on the balance sheet, and Canada has many businesses that not only fit into the manufacturing mould, but that also fit the energy theme, which has taken over in the past few years.

One year ago, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), which touched a low of less than $11.50, as the company undertook a major acquisition and increased the dividend not long afterwards. Investors who'd bought this utility company have done very well, as shares climbed above $14. But the dividend yield has declined in tandem with the share price increase, so the security is no longer attractive.

Going into 2018, the most undervalued energy investment may just be **TransAlta Corporation** (TSX:TA)(NYSE:TAC) at a price of $7.31 per share. The company, which has a market capitalization of $2.1 billion, is big enough to warrant a very good look.

As an energy company, one of the most important metrics to consider is cash flow from operations (CFO). The company's assets are very long term in nature, and the amount of depreciation represents a significant expense.

For TransAlta, the CFO has ranged from $740 million to $800 million in three of the past four years, while averaging $684 million for the past four fiscal years. Throughout the first three quarters of this year, the company reported CFO of $545 million, signaling that it is on pace to deliver close to $725 million once again.

With 288 million shares outstanding, the company offers investors $2.50 of CFO per share, which leads to a price-to-CFO multiple of 2.9 times. For a defensive company, this is a very low multiple.

The dividends paid for the past year represented no more than 15% of CFO, while offering investors a yield of only 2.2%. Although this amount is substantially less than Algonquin, the long-term value that will be realized by investors is going to come in the form of capital appreciation, as the total share count has remained relatively steady at close to 285 million since the end of fiscal 2014.

For those who are balance sheet buyers, the company currently has tangible book value of $8.90 per share after successfully paying back close to $500 million in debt over the past two years. With increasing shareholders' equity and excellent cash flow, investors may be wise to consider this name while it is still available.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:TA (TransAlta Corporation)

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Author
ryangoldsman