3 Companies With Heaps of Cash

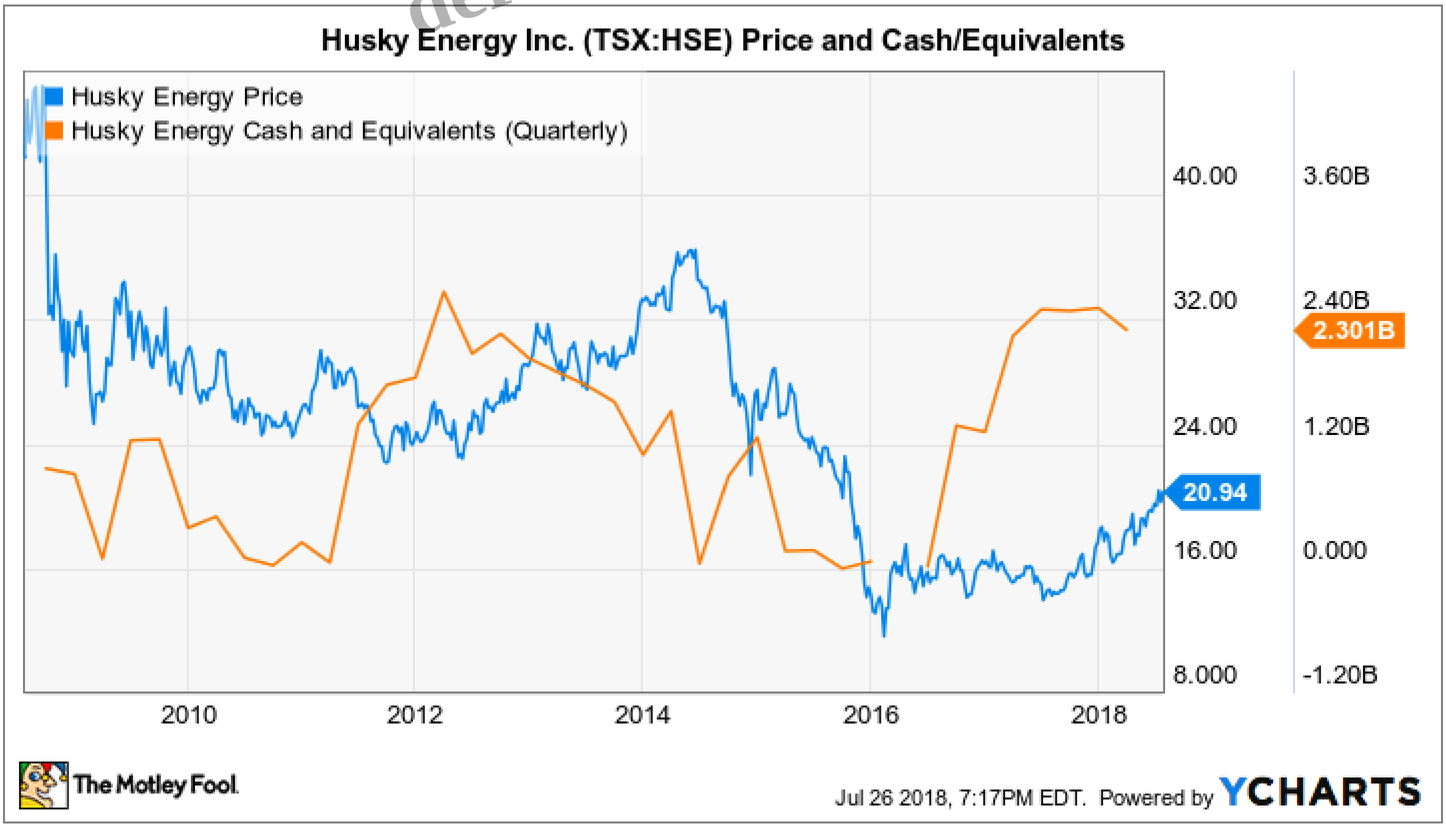
Description

On July 16, **Lundin Mining Corp.** (TSX:LUN) announced its intention to make a $1.4 billion cash offer to acquire **Nevsun Resources Ltd.** The deal is unlikely to pan out given that Nevsun's board previously rejected a richer deal in May, but it nevertheless highlights Lundin's enormous cash position and the opportunities that such a cash balance provides.

As of March 31, Lundin had over $1.6 billion in cash and cash equivalents on its balance sheet. With a current market capitalization of around $5.4 billion, the company's cash represents almost 30% of the entire value of the company.

There are, however, many benefits to having surplus funds that go beyond mergers and acquisitions. Companies in cyclical industries, as well as those exposed to commodity prices, do well to maintain a sizable cash cushion to help them weather difficult times. Equally, extra cash can allow companies to avoid taking on additional debt or issuing shares to raise capital.

This article will examine three companies, each from different sectors, that have lots of cash and cash equivalents on their books. In each case, we will take a look at what role cash plays for these companies.

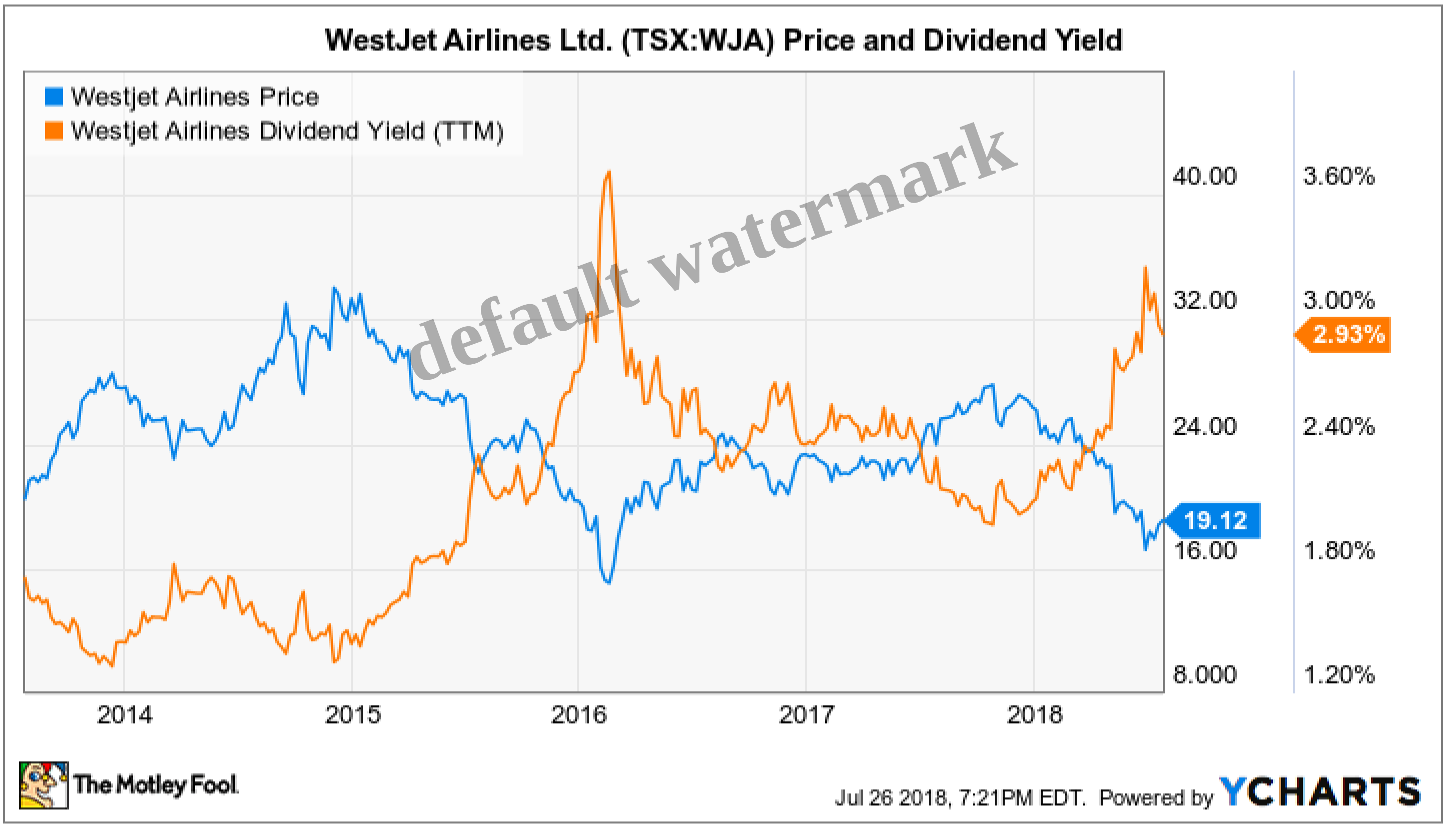


Husky Energy Inc. (TSX:HSE)

Husky has a sizable chunk of cash, with about $2.3 billion on its balance sheet as of March 31. With a market cap just over $20 billion, the company has over 10% of that figure in cash and cash equivalents.

When oil prices deteriorated in 2015, Husky's cash reserve of over $1 billion plummeted, but nevertheless it helped to keep the company in good shape. Coming out of the commodity slump, Husky rebuilt its position and made an all-cash acquisition in 2017 of Superior Refinery for US$435 million, adding further downstream capacity.

At its current price, Husky is reasonably valued and trades at a price-to-earnings multiple of roughly 22 and a price-to-book ratio of around 1.2. The company eliminated its dividend during the oil crash, but it was re-instituted in March and now pays a quarterly distribution of $0.075 for a yield of approximately 1.5%.

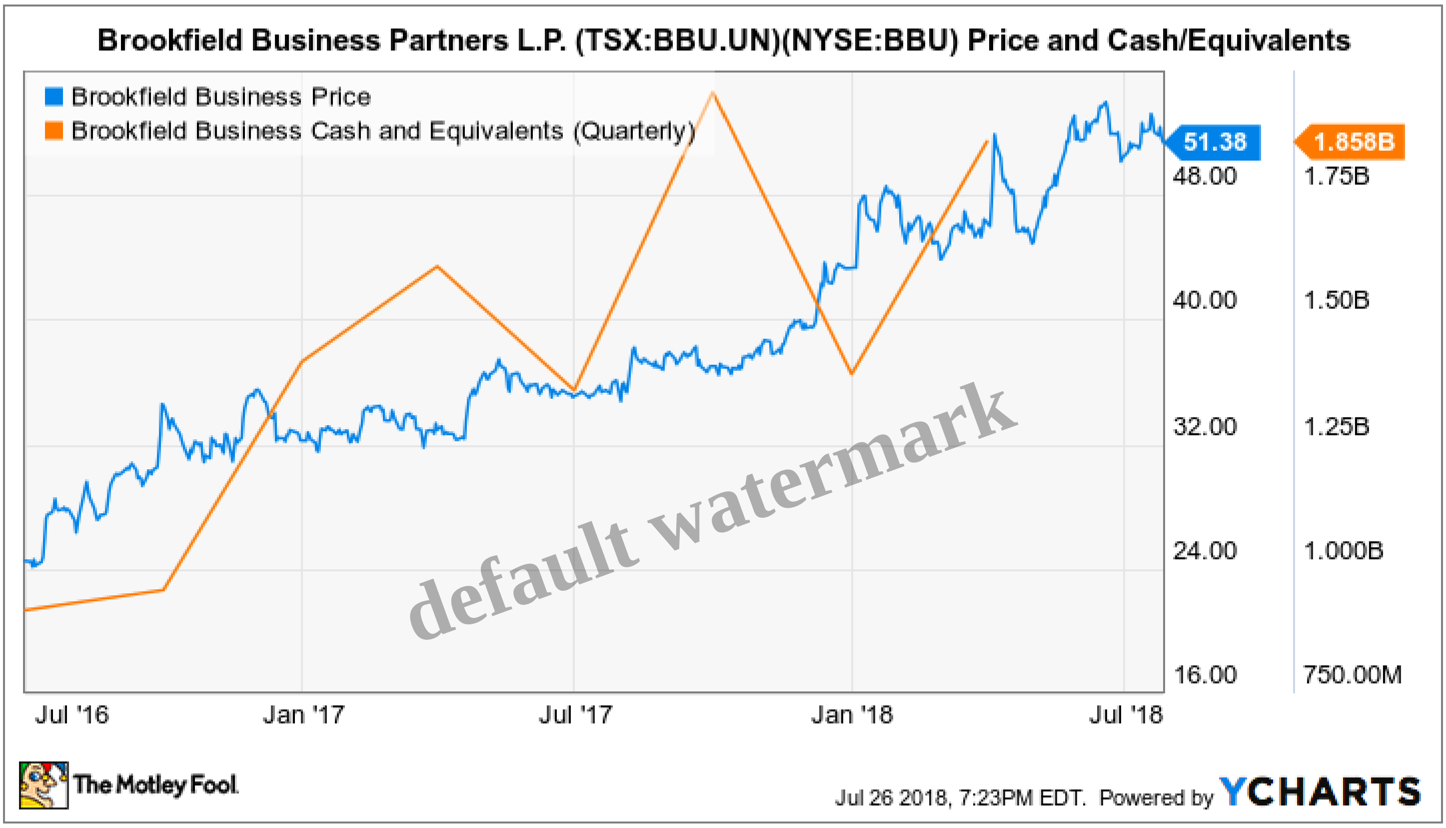


WestJet Airlines Ltd. (TSX:WJA)

With a market cap of a little more than $2 billion, WestJet was sitting on roughly $1.4 billion in cash, cash equivalents, and marketable securities as of March 31. At first glance, the company appears to have piles of cash, but it doesn't go as far as you might expect when every new Boeing 737 costs about US$100 million.

Additionally, due to the cyclical nature of WestJet's business, the company needs to prepare for downturns when travel is a luxury that many avoid. In current economic conditions, WestJet's cash position will shine, as it continues to grow its fleet of wide-body aircraft and expand to new destinations.

In terms of value, WestJet is inexpensive, trading at a price-to-earnings multiple of slightly less than eight and a price-to-book ratio of a little more than 0.9. The company pays a quarterly dividend of $0.14, which equates to an annualized yield of around 3%.



Brookfield Business Partners L.P. (TSX:BBU.UN)(NYSE:BBU)

This subsidiary of **Brookfield Asset Management Inc.** acquires or gains controlling interests in businesses across a wide range of industries with the intention of managing them more efficiently, growing their profitability, and benefiting from the results.

Naturally, a company based on acquisitions requires a substantial amount of cash to fund its purchases; the mid-cap partnership, valued at around $3.4 billion, had approximately US$1.8 billion in cash, cash equivalents, and financial assets as of March 31.

The partnership also benefits from a deposit agreement with the parent company, whereby it can place unused funds on deposit with Brookfield and earn interest while it waits to find its next takeover target. While investors place their money in the company's stock and wait for price appreciation, they get paid a quarterly dividend of US$0.063 — good for a yield of about 0.6%.

Conclusion

Cash is unique because it allows companies to play defence and offence. A balance sheet with a healthy amount of liquid capital can help a company survive in bad times and seize opportunities in good times.

Every company has different cash needs, but the asset is one to look for when doing your research.

CATEGORY

1. Investing
2. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BBU (Brookfield Business Partners L.P.)
2. TSX:BBU.UN (Brookfield Business Partners)
3. TSX:LUN (Lundin Mining Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/07/19
Date Created
2018/07/27
Author
jwatkinsstrand