3 Zero-Debt Companies for Conservative Investors

Description

Investing is all about keeping risks to a minimum. And one of the best ways to do that is by finding companies that have little or even zero debt on its balance sheet.

Why?

Because extremely high debt loads can lead to volatile earnings, crippling interest rate costs, and worst-case, even insolvency or bankruptcy. On the other hand, companies with minimal debt have all the flexibility and time in the world to generate long-term wealth for shareholders.

So, with that in mind, here are three debt-free companies worth checking out.

Drilling down

With $111 million in cash and zero debt on its balance sheet, **Pason Systems** (TSX:PSI) leads off our list. So far in 2018, shares of the oil and gas equipment company are up about 10%.

Pason is currently benefitting from an increase in drilling activity, as well market share gains in the U.S. In Q2, the company's revenue increased 22% to $68.3 million. Meanwhile, free cash flow clocked in at a solid $23.1 million. Based on the strong results, management even increased the quarterly dividend to $0.18 per share.

Pason seems well positioned to capitalize on the continued growth and recovery of the energy sector. More important, with such a clean balance sheet and current yield of 3.6%, betting on it seems like a relatively low-risk move.

Golden opportunity

Our next debt-free pick is **Franco-Nevada** (TSX:FNV)(NYSE:FNV), whose pristine balance sheet has about $96 million in cash on it. So far in 2018, shares of the streaming and royalty company are down 20% on slumping gold prices, but there's good reason to remain optimistic.

While Franco-Nevada is primarily a gold company, it's doing well to diversify. In Q2, oil and gas revenue surged 136.5% year-over-year to $22.7 million, representing about 14% of the company's top-line total.

Moving forward, management expects to generate $65 million-$75 million in revenue from oil and gas, up from a prior view of $50 million-$60 million.

When you combine Franco-Nevada's rock-solid financial position with its relatively tame shares — sporting about half the volatility of the overall market — the company looks like a low-risk play on both gold and energy prices.

For the Win(pak)

Our final debt-free company is **Winpak** (TSX:WPK), which has a whopping $320 million in cash on its books. For those unfamiliar with the company, its business is simple: it makes and distributes packaging materials.

As you might imagine, Winpak isn't the fastest growing business in the world. In Q2, earnings rose 9% on a revenue increase of just 3.4%. Volume expansion was also modest at 1.6%. On the bright side, Winpak continues to be a cash cow, generating $96.4 million in operating cash flow during the quarter.

Winpak shares are off about 16% from their 52-week highs and trade at a P/E of 20. Given the company's pristine balance sheet and strong cash generation, now might be a good time to take advantage.

Fool on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)
3. TSX:PSI (Pason Systems Inc.)
4. TSX:WPK (Winpak Ltd.)

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