3 Top Cash Cows to Buy Right Now

Description

Hey there, Fools. I'm back again to highlight three companies that generate boatloads of free cash flow. Just to remind everyone, I do this because free cash flow is used for shareholder-friendly moves such as

- paying hefty dividends for income-seeking investors;
- buying back shares at depressed prices; and
- growing the business without having to take on too much debt.

While speculating on small-cap cash burners can be profitable over the near term, buying into high-quality cash producers is still the most prudent way to build long-term wealth.

So, without further ado, let's get to this week's "cash cows."

Electric opportunity

First up, we have **TransAlta** (TSX:TA)(NYSE:TAC), which has generated an impressive $496 million in free cash flow over the past 12 months. Year to date, the power utility is down 4%, while the **S&P/TSX Capped Utilities Index** has fallen 11% over the same time period.

The company continues to benefit from strong performance from its Alberta assets. Over the first six months of 2018, free cash flow increased more than $200 million year over year to $334 million. And with that cash, management lowered its net debt by $345 million, bringing its net debt/EBITDA ratio to three. Since 2015, the company has eliminated $1.2 billion in debt from its books.

When you combine that de-risking progress with a solid dividend yield of 2.3%, TransAlta's risk/reward trade-off looks highly enticing.

Stay on track

Our next cash cow is **Canadian Pacific Railway** (TSX:CP)(NYSE:CP), whose trailing 12-month free cash flow clocks in at $950 million. Over the past year, shares of the railway giant are up 28% versus a gain of 10% for the **S&P/TSX Capped Industrials Index**.

CP Rail has benefited from record traffic in crude oil shipments of late and is sharing the wealth with shareholders. In Q2, the company generated $331 million in free cash, up nicely from $274 million a year ago. That helped prompt management to announce a new share-repurchase plan yesterday of up to 5.7 million common shares (or about 4% of CP's public float).

Since 2014, CP has bought back about 25% of its public float. Those consistent repurchases, coupled with a healthy and steady dividend, make CP a genuine shareholder-friendly cash cow.

Shopping spree

Our final cash cow this week is **RioCan Real Estate Investment Trust** (TSX:REI.UN), which has generated $294.5 million in funds from operations — the key cash flow metric for REITs — over the first six months of 2018. Year to date, shares of the shopping mall operating are down 2% versus a loss of 5% for the **S&P/TSX Composite Index**.

While retail might feel like a scary place in today's online world, RioCan's business is holding steady. In addition to strong cash flow, the company's committed retail occupancy in Q2 increased 30 basis points to 97%. Moreover, same-property operating income — another key metric for REITs — managed to increase 2% year over year.

Given RioCan's still-stable business model and operating cash flow, the stock's current yield of 6% seems too good to ignore.

Fool on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:CP (Canadian Pacific Railway)
4. TSX:REI.UN (RioCan Real Estate Investment Trust)
5. TSX:TA (TransAlta Corporation)

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