3 Amazing “Top Dog” Stocks To Buy Right Now

Description

Hey there, Fools. I’m back to highlight three companies with impressive returns on equity (ROE). As a reminder, I do this because a high-ROE business typically has a strong management team that’s able to efficiently employ investor capital and a rock-solid competitive advantage, which translates into higher returns than that of its rivals.

While ROE isn’t a perfect metric by any means, it remains a solid indicator of industry-leading companies. As Warren Buffett once said, “The best business to own is one that — over an extended period — can employ large amounts of incremental capital at very high rates of return.”

So, without further ado, let’s get to this week’s top dogs.

Constellation sensation

Kicking things off is **Constellation Software** (TSX:CSU), which boasts a trailing 12-month ROE of 44%. Shares of the software specialist are down 19% over the past three months versus a loss of 14% for the **S&P/TSX Capped Information Technology Index**.

Concerns over slowing growth have weighed heavily on the stock, but there’s plenty of reason to remain bullish. In Constellation’s recently released Q3 results, net income jumped 21% as revenue increased 19% to $759 million. Moreover, operating cash flow grew 17% to $143 million.

Over the past five years, Constellation’s operating cash flow has grown an impressive 234%.

Constellation is a high-growth stock that seems perpetually expensive. But at a forward P/E in the mid-20s, I’d say that its prospects are now very reasonably priced.

Iconic value

Next up, we have **Canadian Tire** (TSX:CTC-A), which currently has a solid trailing 12-month ROE of 15%. Year-to-date, shares of the iconic retailer are up 2% versus a loss of 13% for the **S&P/TSX Capped Consumer Discretionary Index**.

With roughly 1,700 retail and gas-bar locations across Canada, Canadian Tire continues to be one of the most recognized brands in the country. In the last quarter, revenue increased $147 million, or 3%. More important, same-store sales — the key gauge of a retailer's health — improved 1.6%.

Canadian Tire also remains a shareholder-friendly cash cow. Year-to-date, management has repurchased $379 million worth of shares, with about $170 million more expected for the rest of 2018.

Currently, the stock trades near its 52-week lows. So, it might be time for value hounds to step in.

Proactive opportunity

Our final top dog this week is **Gildan Activewear** (TSX:GIL)(NYSE:GIL), whose ROE consistently registers in the high teens. Over the past three months, shares of the apparel specialist are up 13% versus a loss of 10% for the **S&P/TSX Composite Index**.

Gildan is one of the largest vertically integrated apparel companies in the world, using its significant scale to deliver for shareholders. In 2017, the company generated $2.8 billion in revenue, along with $519 million of free cash flow (of which $413 million was returned to shareholders).

Over the past three years, Gildan's dividends and buybacks have grown at a rate of 49% and 237%, respectively.

The stock has performed well in recent months, but with the price now off about 9% from its 52-week highs — due to the recent market dip — Gildan's risk/reward tradeoff looks attractive.

Fool on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GIL (Gildan Activewear Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:GIL (Gildan Activewear Inc.)

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