3 Great Businesses to Buy Right Now

Description

Hello again, Fools. I'm back to bring your attention to three stocks with high returns on equity (ROE). As a quick refresher, I do this because a business that boasts a high ROE generally do so because of

- a high-quality management team, which prioritizes the efficient use of company assets; and
- a durable a competitive advantage (or "moat"), which allows it to out-earn industry rivals.

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As Warren Buffett once wrote, "A truly great business must have an enduring 'moat' that protects excellent returns on invested capital."

Like all metrics, ROE has its flaws. But it's still one of the best indicators of a high-quality opportunity.

So, without further ado, let's get to this week's high-ROE plays.

Software sensation

Leading things off is **Computer Modelling Group** (TSX:CMG), which boasts a trailing 12-month ROE of 35%. Over the past three months, shares of the energy industry software technologist are down 17% versus a loss of 2% for the **S&P/TSX Capped Information Technology Index**.

While growth has been disappointing of late — revenue was down 12% in the most recent quarter — there's plenty of reason to bank on the long haul. Computer Modelling remains a leader in the reservoir modelling space and continues generate oodles of cash; $24.1 million in operating cash flow over the past 12 months.

With zero debt on the balance sheet and a dividend yield of 5.1%, Computer Modelling's current risk/reward trade-off is intriguing.

Mortgage the future

Next up, we have **First National Financial** (TSX:FN), whose trailing 12-month ROE clocks in at an impressive 38%. Over the past six months, the mortgage specialist has gained 6% versus a decline of

3% for the **S&P/TSX Capped Financial Index**.

With the Canadian mortgage market now valued at over $1.1 trillion, First National — Canada's largest non-bank mortgage originator and underwriter — makes a tonne of sense. In its recent Q3 results, revenue increased 13% as its mortgages under administration climbed 5% to a record $105 billion.

Right now, the stock yields an annualized 6.8%. And if you're a shareholder of record on November 30, management will even throw in a special $1.00 per share dividend your way.

Head in the clouds

Rounding out our list this week is **Kinaxis** (TSX:KXS), which regularly posts ROEs in the mid to high teens. Over the past three months, shares of the cloud-based software specialist are down a significant 22% versus a loss of 7% for the **S&P/TSX Composite Index**.

Kinaxis plunged 15% yesterday on disappointing results, but I'm calling it a simple "growth hiccup" for now. During the quarter, adjusted EBITDA increased 14% as total revenue grew 18% to $39.6 million. Over the past five years, however, EBITDA and revenue have rocketed roughly 600% and 150%, respectively.

At a forward P/E in the mid-50s, the stock still isn't cheap. But with minimal debt on the balance sheet, a comforting beta of 0.6, and a recently punished stock price, Kinaxis's downside might be more limited than you'd think.

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The bottom line

And there it is, Fools: three high-ROE stocks that can help build your long-term wealth.

They aren't formal recommendations, of course. Rather, they're simply ideas you can use to jumpstart your research. Even the most durable moats take plenty of damage over time, so due diligence is still required.

Fool on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CMG (Computer Modelling Group Ltd.)
2. TSX:FN (First National Financial Corporation)
3. TSX:KXS (Kinaxis Inc.)

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