Get Rich With This Key Metric: 3 Top High-ROE Stocks to Buy Now

Description

Hi there, Fools. I'm back to bring attention to three top companies with high returns on equity (ROE). As a reminder, I do this because a high ROE is usually a very good indicator of two things:

- a strong management team that emphasizes the efficient use of shareholder capital; and
- a rock-solid competitive advantage that allows it to out-earn its competitors.

ROE is far from perfect — no metric is. But it remains one of the most simple and useful tools we have to measure business quality.

Without further ado, let's get to it.

Making cheddar

Leading off our list is dairy products giant **Saputo** (TSX:SAP), which consistently posts a ROE in the mid to high teens.

Intensifying competition, ongoing trade wars, and weak dairy markets have weighed heavily on the stock over the past year, but management is doing well to mitigate those challenges. In Q3, earnings managed to improve 1.5%, as revenue grew 18.4% to $3.6 billion.

Saputo remains the largest cheese producer and top milk and cream processor in Canada, providing it with the scale and competitive muscle to keep delivering solid returns.

The stock is up 6% so far in 2019 but remains off about 9% from its 52-week highs. When you add the low beta of 0.4 — about 60% less volatility than the overall market — Saputo's risk/reward trade-off is attractive.

Fully equipped

With a ROE consistently in the low-20% range, heavy equipment company **Toromont Industries** (
TSX:TIH

) is next on our list.

The company has a long track record of delivering steady growth, and 2018 was no exception. Full-year earnings spiked 43% to $252 million as revenue grew 49% to $3.4 billion. On that strength, management even upped the dividend 17% to $0.27 per share, marking the 30th straight year of payout increases.

“Toromont delivered solid results in the fourth quarter and full year of 2018,” said President and CEO Scott Medhurst. “The Equipment Group recorded growth across its expanded territory and in most revenue streams.”

The stock is trading near its 52-week highs, so that business momentum is no secret. But with a reasonable forward P/E of 16, there could be some solid upside left.

Tasty telecom

Rounding out our list is telecom giant **Telus** (TSX:T)(NYSE:TU), which consistently generates a ROE in the mid to high teens.

Telus continues to use its massive scale and regulatory advantages to deliver solid numbers. Despite a growth slowdown in its wireless business, Telus’s Q4 profit increased 4% on a 6% increase in revenue. And for the full year 2018, free cash flow clocked in at an impressive $1.2 billion, up 24% from 2017.

“Telus delivered strong fourth quarter operational and financial results, concluding another year of robust customer growth, while achieving our annual revenue and EBITDA growth targets for the eighth consecutive year,” said President and CEO Darren Entwistle.

Even with the stock at 52-week highs, it trades at a reasonable forward P/E in the mid-teens and offers a juicy dividend yield of 4.5%.

The bottom line

There you have it, Fools: three top high-ROE stocks worth checking out.

As always, they aren’t formal recommendations. They’re simply ideas you can dig down further on. Even high-ROE stocks can disappoint if you underestimate the risks, so plenty of homework is still required.

Fool on.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TU (TELUS)

2. TSX:SAP (Saputo Inc.)
3. TSX:T (TELUS)
4. TSX:TIH (Toromont Industries Ltd.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/26
Date Created
2019/02/24
Author
bpacampara