



3 Stocks Growing Free Cash Flow Like Crazy

Description

Investors often pay a lot of attention to profits — and for good reason. The problem is that reported profits can be manipulated using a variety of accounting shenanigans.

Charlie Munger, Warren Buffett's partner at **Berkshire Hathaway**, once described why he's skeptical of accounting numbers like net profit.

"Accounting is the language of practical business life," Munger admits, "but you have to know enough about it to understand its limitations. Because although accounting is the starting place, it's only a crude approximation. And it's not very hard to understand its limitations."

What you can't fake is cold, hard cash. That's a big reason why seasoned investors rely on cash flow metrics, not profitability.

At the end of the day, a company can always return cash to investors. Accounting profits, meanwhile, don't always result in distributable earnings. It's easy to hide losses with accounting maneuvers (see Enron), but cash is cash.

Which stocks are set to grow free cash flow quickly? Here are three promising options.

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#))

Canadian Natural has had a tough time battling depressed oil prices, but management has maneuvered the company to produce excess cash flow even during a bear market.

Today, the company is free cash flow neutral down to US\$39 per barrel, even including its 3.9% dividend.

In 2018, the company generated \$2.9 billion in free cash flow. This year, free cash flow should rise to \$5.3 billion, all of which can be used to boost the dividend or repurchase shares.

Canadian Natural stock is down 20% over the past 12 months, despite improved conditions. If the share price doesn't cooperate, expect the company to spend as much as \$3 billion to buy back shares, providing a clear catalyst for upside.

Encana (TSX:ECA)(NYSE:ECA)

Encana has also had a difficult time transitioning to lower-for-longer energy prices. Today, its stock trades at just \$7 per share, the same price shares traded at in 2004.

It's been a long road, but management appears to have [transformed the business](#), even if the market hasn't shown much appreciation yet.

In 2019, Encana should post its second year in a row of positive free cash flow. It won't be much, but it represents a major shift from previous years when the company bled billions in capital.

Recently, management noted that rising energy prices have the potential to lift their free cash flow estimates even further.

In a confident move, the company recently instituted a \$1.25 billion share buyback. That's more than 10% of the entire company. Already, Encana has repurchased 91 million shares at an average price of \$7.19 per share.

As with Canadian Natural, Encana should be content with betting on itself until the market realizes its situation has taken a hard turn for the better.

Alimentation Couche-Tard (TSX:ATD.B)

Unlike the stocks listed above, Alimentation has been a cash flow machine for decades.

Since 1999, Alimentation stock has risen from just \$0.85 per share to nearly \$80 apiece. This rise has been fueled by its proven ability to generate gobs of cash.

Today, Alimentation is huge. It operates roughly 10,000 convenience stores across every province in Canada and nearly every U.S. state. It also operates nearly 3,000 stores in Europe.

While Alimentation has used its cash flow to grow operations in the past, I've argued that it's time to return money to shareholders.

Last quarter, Alimentation earned \$1.08 per share. That would equal \$4.32 per share in earnings on an annualized basis. Its dividend only accounts for \$0.50 per share in annual expenses. Overnight, the company could quadruple its dividend while still retaining most of its earnings.

Alimentation is the rare company that can substantiate its high earnings growth with ample free cash flow. This stock has been a winner for more than two decades. Don't be surprised to see that cash flow finally make its way back into shareholders' pockets.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

PARTNER-FEEDS

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