Alert: This Key Warren Buffett Metric Is Flashing Green on These 3 Top Stocks

Description

Hi there, Fools. I'm back to highlight three solid companies with a consistently high return on equity (ROE). As a quick refresher, I do this because high-ROE businesses usually display two important qualities:

- a strong management team that prioritizes efficient use of shareholder capital; and
- a durable competitive advantage that translates into above-average industry profits.

As the legendary investor Warren Buffett once said, "[T]he best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return."

Let's get to it, shall we?

Railway to heaven

Leading off our list is railroad giant **Canadian Pacific Railway** (TSX:CP)(NYSE:CP), which consistently chugs out an ROE in the 30-40% range.

CP utilizes its economies of scale, cost advantages, and impenetrable barriers to railroad entry to deliver consistent results for shareholders. Despite a challenging winter and a 180-basis-point increase in its operating ratio, CP's Q1 revenue grew 6% and diluted EPS jumped 28%.

On that strength, management pumped the quarterly dividend 28% to $0.83 per share.

"I thank our customers and stakeholders for working with and supporting CP over the past few months," said CEO Keith Creel. "As we look forward, we remain confident in our ability to deliver record financial and operating results in 2019."

CP shares are up 21% so far in 2019.

Perfect play

With a ROE in the low-20s, toy technologist **Spin Master** (TSX:TOY) is next up on our list.

To be sure, Spin Master has suffered of late due to the closure of retail toy giant Toys “R” Us. In the most recent quarter, revenue decreased 16.3%, gross margin declined 700 basis points to 45.1%, and free cash flow clocked in at a negative US$39.8 million.

That said, Spin Master continues to boast an impressive stable of brands as well as strong organic growth upside.

“We manage Spin Master for the long term and as we execute through the tail-end of a very disruptive retail environment, we are confident that we are well positioned to drive profitable long-term growth,” said Chairman and Co-CEO Ronnen Harary.

Spin Master shares are up 10% in 2019.

Green monster

Rounding out our list is banking behemoth **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which consistently boasts a ROE in the mid-teens.

TD continues to lean on its solid deposit mix, leading market share position, and highly favourable regulatory environment to provide consistent strength for investors. While TD’s wholesale segment declined in Q1, adjusted income for TD’s Canadian and U.S. retail segments improved 6% and 21%, respectively.

Management even hiked the quarterly dividend 10% to $0.74 per share.

“TD’s Retail segments in both Canada and the U.S. had a strong start to the year, with continued revenue growth and solid earnings,” said President and CEO Bharat Masrani. “However, market volatility and lower client activity impacted our Wholesale segment in the quarter.”

TD shares are up 9% so far in 2019 and offer a healthy dividend yield of 3.7%.

The bottom line

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

As always, they aren’t formal recommendations. View them, instead, as a starting point for more research. Even high-ROE companies can disappoint if you don’t pay attention to the risks, so plenty of due diligence is still required.

Fool on.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CP (Canadian Pacific Railway)
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Date
2025/07/07
Date Created
2019/05/15
Author
bpacampara