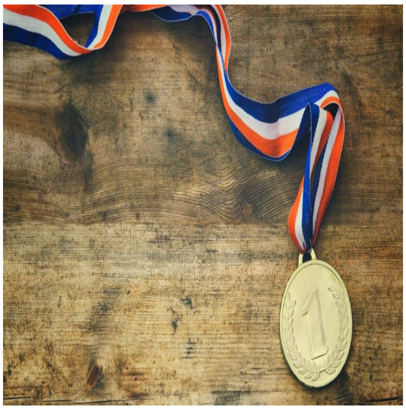

3 Top Stocks Generating Strong Cash Flows

Description

At times, investors over-rely on earnings performance. Although important, net income can be impacted by several one-time and non-cash-related events. Think amortization and acquisition expenses. This can either downplay a company's struggles or hide exceptional performance.

It is for this reason that due diligence should always include an analysis of cash flows. A company's cash position can help determine the safety of a dividend, whether the company generates sufficient funds to operate, and if it will require external financing to fund growth.

Investors should not underestimate the importance of cash flow. *Cash is king*, after all. With that in mind, here are three stocks that are generating strong cash flows.

Kirkland Lake Gold

Kirkland Lake Gold (TSX:KL)(NYSE:KL) is one of the best-performing stocks in the country. Year to date, the company's stock has doubled (+101.49%), and it has returned 9,937% over the past five years. Why the outperformance? Kirkland Lake is one of the lowest-cost producers in the mining industry. In the first quarter, it recorded all-in sustaining costs of only $560/oz of gold.

In 2018, gold prices averaged $1,268 an ounce, and the price of gold recently broke through the psychological $1,300/oz barrier. At these prices, Kirkland Lake is generating considerable cash. In the first quarter, it generated a record $93.1 million in free cash flow (FCF). Over the past 12 months, FCF has jumped by 85.2% over the preceding year. Over the past five years, FCF has grown by an average rate of 55% annually.

Strong cash flows have enabled the company to start paying a dividend — a dividend which has jumped by 500% since 2017 and accounts for only 5% of FCF.

Aecon Group

An industry-leading engineering and construction firm, **Aecon Group** (TSX:ARE) has been a strong performer. Aecon was stuck in limbo for the better part of a year, as it awaited the outcome of a Chinese-backed takeover. This led to reduced operational activity, lower earnings, and a pause in dividend growth.

The lack of dividend growth was disappointing, as it lost its status as a Canadian Dividend Aristocrat. Now that the failed takeover bid is firmly behind it, the company has been able to get back to basics. Year to date, the company's stock is up 25%, and it has increased FCF by almost 50% over the past year.

In March, the company returned to dividend growth, increasing its dividend by 16%. This is all thanks to strong cash flows.

TFI International

At the moment, **TFI International** (TSX:TFI) is the best valued of the three stocks mentioned. Although the stock is up 14% year to date, it has lost almost 10% of its value in the past month. The reason? As a transportation company, it has been impacted by trade war rhetoric. Fear not, however, the company has done nothing but deliver.

In the first quarter, TFI announced record results across the board. Adjusted earnings per share jumped by 40%, and FCF is up by 52% over the past 12 months. Over the past five years, it has grown FCF by an average of 23% annually. It is therefore not surprising that the company has averaged annual double-digit dividend growth over the past eight years.

The company is trading at a cheap 9.57 times forward earnings and has a very low P/E-to-growth ratio of 0.57. TFI International's stock price is not keeping up with expected growth rates and is a buy at these levels.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:ARE (Aecon Group Inc.)
2. TSX:TFII (TFI International)

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