



Investors: These Cash Cow Stocks Are Embarrassingly Cheap

Description

If I was going to sum up my investing process in one sentence, it would go a little something like this:

I aim to put my capital to work in companies with strong, sustainable free cash flow that are trading at a reasonable valuation.

Most of the time, companies that generate a lot of free cash flow aren't really cheap. The market values consistent earnings, so the stock gets bid up. The best investors can do is pay a reasonable price for these assets.

But every now and again, investors fall out of love with a company, sending its shares cratering. This creates an opportunity to buy a cash flow creator at a bargain price. Investors should take advantage of these opportunities; I know I sure am.

Let's take a look at two [incredibly undervalued stocks](#), cash cows that deserve to trade at much higher multiples.

Capital Power

Capital Power Corp ([TSX:CPX](#)) is an Alberta-based power generation company that owns 25 different power plants scattered across North America. The majority of its assets are located in Alberta, but it also owns facilities in B.C., Ontario, and across the United States.

The company spent much of 2015-16 in the spotlight after Alberta's then newly elected NDP government announced it would be ending all coal-fired power production in the province by 2030. Capital Power was impacted by this, announcing that it would use the cash windfall provided by the government to help convert its fleet into natural gas-fired facilities.

Capital Power has become a growth story as the company works on acquiring assets outside of its traditional Alberta market. These efforts have helped the company increase its adjusted funds from operations (AFFO) — a proxy for free cash flow — from \$2.51 per share to expectations of \$4.46 per

share for 2019 for an annual growth rate of 12%.

Despite being up some 50% over the past three years, Capital Power shares are still cheap today. The stock trades at just 6.8 times 2019's adjusted AFFO. Management also expects the growth to continue, telling investors that the bottom line should increase enough to support 7% annual dividend increases through 2021. That's great news for income investors; the stock currently yields a robust 5.9% too.

Transcontinental

Transcontinental Inc. ([TSX:TCL.A](#)) is a tale of two businesses. The first, the legacy printing business, produces newspapers, flyers, and so on. It's performing as well as always, but it is poised to shrink over time. The company chose to rectify this by acquiring a specialty packaging business. While this acquisition has done a nice job boosting the top line, it hasn't resulted in increased profits.

Over the company's last four quarters, it has generated approximately \$2.8 billion in top line revenue. Management expects that to increase to \$3 billion during the calendar year of 2019. But adjusted profits have fallen to just \$1.12 per share over the first two quarters of 2019, a decrease of 14% over the same period last year.

Investors are growing impatient, sending the stock down more than 50% over the last 52 weeks. The euphoria of the acquisition has worn of big time.

However, must remember that Transcontinental still generates gobs of free cash flow, reporting total cash flow from operations of \$539 million in 2018. After taking off \$80 million for capital expenditures, the company posted \$459 million worth of free cash flow last year.

Shares have a current market cap of just over \$1.3 billion, putting shares at a price-to-free cash flow ratio of just under three times earnings. Transcontinental might well be the [cheapest stock on the Toronto Stock Exchange](#).

Oh, and investors who buy in today can lock in a 5.9% dividend yield — a payout that's increased each year since 2009. Take advantage of this soon — before shares correct to the upside and you miss out on this opportunity.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:TCL.A (Transcontinental Inc.)

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