3 Recession-Proof "Cash Cows" for a Secure 2020

Description

Hi there, Fools. I'm back again to highlight three companies that generate boatloads of cash flow. As a quick reminder, I do this because cash flow is used by management teams for shareholder-friendly moves, such as

- paying hefty dividends for income-seeking investors;
- buying back shares at depressed prices; and
- growing the business without having to take on too much debt.

While speculating on small-cap cash burners can be profitable over the near term, buying into high-quality cash producers remains the most prudent path to wealth.

So, if you're looking for a way to "recession-proof" your portfolio in 2020, this list might be a good place to start.

IT factor

Leading off our list is **CGI** (TSX:GIB.A)(NYSE:GIB), which has generated $1.6 billion in operating cash flow over the past 12 months. Year to date, shares of the IT services giant are up about 23%.

CGI's IT expertise (77,500 consultants around the globe), geographic reach, and capital-light business model continue to support very stable fundamentals. In the most recent quarter, for example, earnings improved 7% as revenue increased 6% to $3.1 billion.

CGI also ended the quarter with an impressive backlog of $22.4 billion.

"I am pleased with this quarter's results of continued revenue growth and profitability expansion as we execute our build and buy strategy in every operating segment," said CEO George Schindler. "We continue to see strong client demand for our end-to-end services worldwide."

CGI shares currently trade at a forward P/E of 20.

Golden opportunity

Next up, we have **Franco-Nevada** (TSX:FNV)(NYSE:FNV), which has produced $646 million trailing 12-month operating cash flow. Shares of the gold royalty company are up 34% so far in 2019.

Franco's solid performance continues to be underpinned by a limited exposure to capital costs, leverage to the rising price of gold, and a rock-solid dividend. In the most recent quarter, adjusted EBITDA clocked in at $138 million on cash costs of only $25.6 million.

Gold equivalent ounces came in at 107,774.

"Franco-Nevada had a strong second quarter and a record first half of the year in terms of revenue, EBITDA and net income," said CEO David Harquail. "Franco-Nevada expects to have a strong second half with a growing revenue outlook over the next five years."

Franco-Nevada shares currently offer a dividend yield of 1.1%.

Open mind

With $1.2 billion in trailing 12-month operating cash flow, **Open Text** (TSX:OTEX)(NASDAQ:OTEX) rounds out our list. Shares of the software giant are up 19% so far in 2019.

Open Text's solid cash flow continues to be backed by highly recurring revenue, a strong position in enterprise software, and shareholder-friendly management. Since inception, the company has returned close to US$550 million to shareholders.

"As we look into fiscal 2020 and beyond, we have never been stronger in our operating framework and balance sheet flexibility to continue our investments in product innovation, go-to-market and strategic acquisitions," said CFO Madhu Ranganathan in the most recent quarter.

Open Text shares currently trade at a forward P/E of 13 and offer a dividend yield of 1.7%.

The bottom line

There you have it, Fools: three "cash cows" worth considering.

As always, they aren't formal recommendations. Instead, see them as a starting point for further research. Even the most stable cash generators can suffer setbacks, so plenty of your own due diligence is still required.

Fool on.

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2. NYSE:FNV (Franco-Nevada)
3. NYSE:GIB (CGI Group Inc.)
4. TSX:FNV (Franco-Nevada)
5. TSX:GIB.A (CGI)
6. TSX:OTEX (Open Text Corporation)

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