This Cash-Rich Stock Should Be on Your Market Crash Buy List

Description

At some point, there's likely to be a credit crunch. Governments are doing everything they can to stop debt from coming down, but history has shown that debt eventually becomes unsustainable. I have been toying around with the idea of retreating almost all of my money back into stocks with more cash than debt.

I say "toying only" with the idea because many companies I like as dividend payers are in a net-debt position. Companies like **Enbridge Inc.** and **Emera Inc.** are great as dividend payers because they have regulated and contracted aspects to their earnings.

The regulated side helps smooth out income so that these companies can grow dividends while meeting their debt obligations.

I fear net debt

My views on debt are very old-fashioned. I am at odds with, it seems, most of my contemporary humans as I do not like net-debt situations in governments, corporations, or individual finances. Historically, high debt loads tend to result in volatility and negative consequences.

You'll notice I use the term *net debt* instead of zero debt. Net debt simply means that there is more cash than debt on the balance sheet of any economic organism.

When you have net debt, you are at a higher risk of negative shocks than you are if you have net cash. Cash allows you to ride out negative situations.

One company that fits the bill

That's why I find companies like **Kinaxis Inc.** (TSX:KXS) very appealing as companies. This tech stock operates in a growth sector of automated supply chain planning, monitoring, and response. There should be ample opportunities for it going forward as organizations rework their supply chains to operate in the post-pandemic world.

Its balance sheet is pristine and it is in a net cash position. In fact, it currently has no net debt at all. Even more appealing is the fact that it has more cash than the entirety of its liabilities. This is a company that will be able to survive the current crisis and take advantage of acquisition opportunities if they arise.

Net cash combined with free cash flow is a winning combination

The best-case scenario is to own companies that have both net cash as well as free cash flow. These are the true cash cows. Unfortunately, in Canada, it is a bit of a struggle to find such companies. It is even harder to find ones that trade at a reasonable valuation. Most investors have discovered these rare gems and have driven their valuations through the roof.

In negative situations such as that which we are facing in the aftermath of the global pandemic, companies with debt are at the beck and call of their creditors. Companies that have both cash and free cash flow are in command. They can buy up other companies, purchase assets, and buy back their potentially lower shares at bargain prices.

Kinaxis has excellent free cash flow and operational results as well. In Q4 of 2019, it posted 47% revenue growth year-over-year. The results indicate a demand for its services that should extend past the crisis.

The downside

Kinaxis is expensive — *very* expensive. I am not the only investor out there who recognizes its value. Currently, Kinaxis trades at a forward price to earnings multiple of about 90 times forward earnings and a price to book of about 11 times. It is too expensive to buy here, in my opinion, so I will wait for a general market pull-back to buy.

The bottom line

It is easy to invest in companies with large debt loads when everything is rosy. At that point, who cares about debt. It's when things go bad that you realize the benefit of a strong balance sheet.

If the market takes another dive in the coming months, debt-free, free cash flow-generating companies like Kinaxis should be on your buy list. You won't regret it.

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