Top 2 Stocks With Incredibly Robust Cash Flows

Description

The **TSX Index** is at a critical crossroads. Ever since the COVID-19 crisis decimated the global economy, there has been a split between the COVID-resilient plays (cloud stocks and consumer staples) and the COVID-hit plays (energy and financials). Rising out of the March lows, there have essentially been two markets: the one led by white-hot shares of **Shopify** that's been riding on pandemic tailwinds, and the one that's been hovering in limbo, barely participating in the last several month's relief rally.

Whether the COVID-hit plays will ever catch up to the first-half-of-the-year winners is anybody's guess. Regardless, investors should have a strong preference for stable balance sheets and resilient operating cash flows. This piece will have a look at two attractively valued stocks with cash flows that are solid enough to justify holding as we head into what could be a horrifically worse second wave of COVID-19 cases.

Consider shares of **TC Energy** (TSX:TRP)(NYSE:TRP) and **Hydro One** (TSX:H), two high-yield dividend stocks that are well equipped to handle a worsening of this crisis. The names sport dividend yields of 5.8% and 3.6%, respectively, at the time of writing. So, in order of upside potential, let's have a closer look at each name.

TC Energy: More of a utility than an energy stock

Yes, I know, energy is viewed as uninvestable in an environment like this. If oil prices can go negative, anything is possible in the headwind-filled energy sector that continues to resist the secular decline of filthy fossil fuels.

TC Energy is a best-in-breed midstream player with a well-diversified portfolio of cash flow-generative assets. The incredible management team are excellent risk mitigators, and that's a huge reason why TC Energy was able to hit a new all-time high back in February 2020, as its peers continued to tread water amid the hailstorm in the energy patch.

Things quickly went from bad to nightmarish for the energy sector, as COVID-19 decimated the industry, sending demand plunging into the abyss. Fortunately, TC Energy is more of a utility than your average pipeline company. TC Energy doesn't depend on high commodity prices to do well. Once commodity prices bounce back to normalized levels after this pandemic, TC Energy will be right back to where it was before its COVID-induced slide.

The stock trades at 4.2 times sales and 1.9 times book value, both of which are far too low considering the calibre of business you're getting. Sure, energy isn't the place to be right now, but I think TC Energy ought to be one of the exceptions given the resilience of its cash flows.

Hydro One: A wide moat around its cash flows

Hydro One (TSX:H) is a bond proxy with a virtual monopoly in its operating environment. A ridiculously wide moat protects the firm's cash flows. Although the firm's dominance in Ontario is a burden on its long-term growth profile, I think even without a meaningful growth outlet that the firm is worthy of holding in an environment like this, where fixed-income securities offer next to nothing in terms of interest for your investment.

The company is not sexy by any means. Still, with a low correlation to the broader markets (0.2 beta), Hydro One is one of the better places to hide if you're looking to hide from excess volatility that will continue to be challenging to tame for the duration of this pandemic. The electric transmission utility is gushing with cash. Not even a drastic worsening of this crisis will cause it to even think about taking its dividend to the chopping block.

Hydro One trades at 6.7 times cash flow and just 1.6 times book value, making it a top pick to bolster the defences of any portfolio that's just not ready for a second wave of COVID-19 outbreaks.

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2. TSX:H (Hydro One Limited)
3. TSX:TRP (TC Energy Corporation)

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