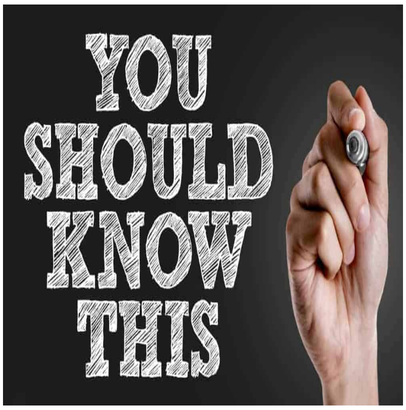

TSX Stocks: How to Identify High-Quality Companies in Stock Markets

Description

Many investors shun stock markets because they perceive it as one of the riskiest avenues. However, that’s not the case. Investing in a high-quality company allows one to take reasonable risk and reap significant gains in the longer term. But how to identify a quality company or a quality stock?

Revenues and earnings stability

If a company is generating consistently growing revenues and earnings, that’s certainly a positive sign. It’s not necessary to choose a company that is exhibiting the highest earnings growth on the street. You might want to avoid companies with volatile financials. A track record of five or 10 years gives a fair idea. Stable earnings, even during the economic downtrend, lower uncertainties for the company and reduces risk.

Algonquin Power & Utilities has witnessed stable revenues and earnings growth in the last decade. Utility companies generally grow steadily due to their highly regulated operations. AQN stock has returned more than 600% in the last decade.

Good management

This is often an ignored aspect when investors research for quality companies in a stock market. Virtuous company management with a vision and innovation really goes a long way. Management that forecasts industry trends well in advance and adjusts quickly for unforeseen events benefit the company and its shareholders.

A German-Canadian entrepreneur Tobias Lütke began with an online platform to sell snowboarding equipment, which a decade later emerged as **Shopify**. Tech giant Shopify is the biggest Canadian company now with a market cap of $147 billion.

Debt profile

A very high amount of debt can be a red flag while investing in a stock market. However, a company with zero debt is maybe giving up on the relatively cheapest form of capital. So, investors have to find a middle ground here by choosing a company with manageable debt.

A company with debt-to-EBITDA, a leverage ratio that indicates in how many years the debt can be repaid, lower than the industry average, could the best pick. An absolute value of total debt could be of little help.

For example, as per their recent quarterly results, energy giant **Suncor Energy** has a debt-to-EBITDA ratio of 1.5x, while **Bombardier** has it beyond 13x.

Dividends

If a company is consistently rewarding its shareholders with dividends, it suggests management's confidence in its future. Canada is a home for several reliable dividend-paying companies. Along with capital gain, dividend compounding could play a big role in driving shareholder returns in the long term.

Top utility **Fortis** has not only maintained, but also increased dividends for the last 47 consecutive years.

Competitive advantage

Competitive advantage, which the legendary investor Warren Buffett describes as an economic moat, is the one factor that makes the company stand tall among peers. **Canadian National Railway** is an apt example here. Its 19,600-mile network joins three coasts: the Atlantic, the Pacific, and the Gulf of Mexico. The network acts as a backbone for the North American economy and is highly difficult to replicate.

While these research basics may not give guaranteed market-beating returns, they will certainly give you a better perspective and polish your investing skills.

Enbridge (TSX:ENB)(NYSE:ENB) is the country's one of the quality companies that checks in all the above boxes. It is an energy midstream company with relatively lower exposure to volatile oil prices that allows earnings stability. It has increased dividends for the last 20 straight years.

Enbridge yields 8.5% at the moment, notably higher than TSX stocks at large. It carries 25% of North America's crude oil, and 20% of natural gas consumed in the U.S. Enbridge is a fundamentally strong company with decent growth prospects. The stock has returned 9% compounded annually since 2010, outperforming Canadian stocks at large.

CATEGORY

1. Coronavirus
2. Dividend Stocks

3. Energy Stocks
4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners

Date
2025/08/22
Date Created
2020/11/16
Author
vinitkularni20