



## 3 Undervalued Small Caps With Yields up to 8.6%

### Description

As intelligent investors know, dividend-paying stocks outperform non-dividend-paying stocks over the long term, and small caps have the highest growth rates on average. It is for this reason that investing in dividend-paying small caps can result in huge returns, so let's take a quick look at three that are undervalued and could be added to your portfolio today.

#### 1. Exchange Income Corporation

**Exchange Income Corporation** ([TSX:EIF](#)) is a corporation that is focused on investing in profitable, well-established companies with strong cash flows in the aviation and manufacturing industries.

At today's levels, its stock trades at just 12.5 times fiscal 2015's estimated earnings per share of \$1.79 and only 10.5 times fiscal 2016's estimated earnings per share of \$2.13, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 31.1.

With its five-year average multiple, its estimated 19% earnings growth rate in fiscal 2016, and the high volatility in the market in mind, I think Exchange Income Corporation's stock could consistently command a fair multiple of about 15, which would place its shares around \$32 by the conclusion of fiscal 2016, representing upside of over 43% from current levels.

In addition, the company pays a monthly dividend of \$0.16 per share, or \$1.92 per share annually, which gives its stock an 8.6% yield. It is also very important to note that it has raised its annual dividend payment for five consecutive years, and it is currently on pace for 2016 to mark the sixth consecutive year with an increase.

#### 2. Morneau Shepell Inc.

**Morneau Shepell Inc.** (TSX:MSI) is the leading provider of employee and family assistance programs, the largest administrator of retirement and benefits plans, and the largest provider of integrated absence management solutions in Canada.

At today's levels, its stock trades at just 31 times fiscal 2015's estimated earnings per share of \$0.45

and only 15 times fiscal 2016's estimated earnings per share of \$0.93, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 40.6.

With its five-year average multiple, its estimated 106.7% earnings growth rate in fiscal 2016, and the high volatility in the market in mind, I think Morneau Shepell's stock could consistently command a fair multiple of about 20, which would place its shares upwards of \$18 by the conclusion of fiscal 2016, representing upside of over 28% from current levels.

Additionally, the company pays a monthly dividend of \$0.065 per share, or \$0.78 per share annually, which gives its stock a 5.6% yield. Investors should also note that it has maintained this monthly rate since January 2011.

### **3. Whistler Blackcomb Holdings Inc.**

**Whistler Blackcomb Holdings Inc.** (TSX:WB) owns a 75% interest in Whistler Mountain Resort Limited Partnership and Blackcomb Skiing Enterprises Limited Partnership, which operate four-season mountain resort businesses located on adjacent and integrated mountains in British Columbia.

At today's levels, its stock trades at just 24.9 times fiscal 2016's estimated earnings per share of \$0.89 and only 21.3 times fiscal 2017's estimated earnings per share of \$1.04, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 39.9.

With its five-year average multiple, its estimated 16.9% earnings growth rate in fiscal 2017, and the high volatility in the market in mind, I think Whistler Blackcomb's stock could consistently command a fair multiple of about 28, which would place its shares upwards of \$29 by the conclusion of fiscal 2017, representing upside of over 30% from current levels.

In addition, the company pays a quarterly dividend of \$0.24375 per share, or \$0.975 per share annually, which gives its stock a 4.4% yield. Investors should also note that it has maintained this quarterly rate since it went public in November 2010.

### **Which of these top small caps should you own?**

Exchange Income Corporation, Morneau Shepell, and Whistler Blackcomb are three of the most attractive high-yielding small caps in their respective industries. All Foolish investors should take a closer look and strongly consider establishing positions in one of them today.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:EIF (Exchange Income Corporation)

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