



### 3 Undervalued Small Caps With High Yields to Buy Now

#### Description

As Foolish investors know, dividend-paying stocks outperform non-dividend-paying stocks over the long term, and small-cap stocks have the highest growth rates on average. This means that investing in dividend-paying small-cap stocks can be a recipe for huge returns, so let's take a look at three that you could buy today.

#### 1. Canadian Western Bank

**Canadian Western Bank** ([TSX:CWB](#)) is one of the largest banking institutions in Canada's four western provinces with over \$22 billion in total assets.

At today's levels, its stock trades at just 8.5 times fiscal 2016's estimated earnings per share of \$2.68 and only 7.9 times fiscal 2017's estimated earnings per share of \$2.86, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 12.9 and its industry average multiple of 13.1.

With the multiples above and its estimated 4.3% long-term earnings growth rate in mind, I think Canadian Western Bank's stock could consistently command a fair multiple of at least 10, which would place its shares upwards of \$26 by the conclusion of fiscal 2016 and upwards of \$28 by the conclusion of fiscal 2017, representing upside of more than 14% and 23%, respectively, from today's levels.

In addition, the company pays a quarterly dividend of \$0.23 per share, or \$0.92 per share annually, which gives its stock a yield of about 4.05%.

#### 2. Premium Brands Holdings Corp.

**Premium Brands Holdings Corp.** ([TSX:PBH](#)) is one of the largest owners and operators of specialty food manufacturing and differentiated food distribution businesses in Canada and the United States.

At today's levels, its stock trades at just 24.8 times fiscal 2015's estimated earnings per share of \$1.77 and only 20.4 times fiscal 2016's estimated earnings per share of \$2.15, both of which are inexpensive compared with its five-year average multiple of 44.7 and its industry average multiple of 33.7.

With the multiples above and its estimated 21.5% earnings growth rate in fiscal 2016 in mind, I think Premium Brands' stock could consistently command a fair multiple of about 25, which would place its shares upwards of \$53 by the conclusion of fiscal 2016, representing upside of more than 20% from today's levels.

Additionally, the company pays a quarterly dividend of \$0.345 per share, or \$1.38 per share annually, which gives its stock a yield of about 3.1%.

### **3. Sleep Country Canada Holdings Inc.**

**Sleep Country Canada Holdings Inc.** ([TSX:ZZZ](#)) is Canada's leading retailer of mattresses and sleep accessories through its Sleep Country and Dormez-vous brands.

At today's levels, its stock trades at just 15.6 times fiscal 2015's estimated earnings per share of \$1.09 and only 14.6 times fiscal 2016's estimated earnings per share of \$1.16, both of which are inexpensive compared with its industry average price-to-earnings multiple of 23.7 and its sector average multiple of 17.9. Five-year average multiples are not available for this stock, because it went public less than a year ago.

With the multiples above, its estimated 6.4% earnings growth rate in fiscal 2016, and the fact that it is the only publicly traded mattress company in Canada in mind, I think Sleep Country's stock could consistently command a fair multiple of about 20, which would place its shares upwards of \$23 by the conclusion of fiscal 2016, representing upside of more than 35% from today's levels.

In addition, the company pays a quarterly dividend of \$0.13 per share, or \$0.52 per share annually, which gives its stock a yield of about 3.1%.

### **Does one of these small caps belong in your portfolio?**

Canadian Western Bank, Premium Brands, and Sleep Country Canada are three of the best dividend-paying small-cap investment options in the market today. All Foolish investors should strongly consider establishing positions in one of them.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:CWB (Canadian Western Bank)
2. TSX:PBH (Premium Brands Holdings Corporation)

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