2 Deeply Discounted Mid Caps With Great Dividends

Description

As investors, we want to outperform the market each and every year, but our ultimate goal is to outperform the market over the long term. There are many ways we can go about trying to do this, but one of the best and least-risky ways I have found is to buy stocks that are undervalued on a forward price-to-earnings basis and have great dividends.

I've scoured the market and selected two mid caps that meet these criteria perfectly, so let's take a closer look at each to determine if you should buy one or both of them today.

1. TransForce Inc.

A North American trucking giant

TransForce Inc. (TSX:TFI) is a leader in the North American transportation industry with operations across Canada and the United States. It services the package and courier, less-than-truckload, truckload, and logistics segments of the industry, and its subsidiaries include All Canadian Courier, Loomis Express, Clarke Transportation, Kingsway, Roadfast, McArthur Express, and Optimal Freight.

A wildly undervalued stock

Transforce's stock currently trades at just 13 times fiscal 2016's estimated earnings per share of $1.99 and only 11.8 times fiscal 2017's estimated earnings per share of $2.20, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 20.8. With its five-year average multiple and its very high growth rate in mind, I think its stock could consistently and safely trade at a fair multiple of at least 15.

A growing stream of dividends

TransForce pays a quarterly dividend of $0.17 per share, representing $0.68 per share on an annualized basis, and this gives its stock a yield of about 2.6% at today's levels. This yield is very safe when you consider that its free cash flow from continuing operations totaled $1.14 per share and its dividend payments totaled just $0.34 per share in the first half of 2016, resulting in a very conservative

29.8% payout ratio.

Investors must also note that TransForce has raised its annual dividend payment for five consecutive years, and its consistent growth of free cash flow, including its 6.5% year-over-year increase to $1.14 per share in the first half of 2016, and its reduced payout ratio, including 29.8% in the first half compared with 31.8% in the same period a year ago, could allow it to continue this streak in 2016 and beyond.

2. Industrial Alliance Insurance and Financial Services Inc.

One of Canada's four largest life and health insurance companies

Industrial Alliance Insur. & Fin. Ser. (TSX:IAG) is one of Canada's leading providers of financial products and services. Its offerings include life and health insurance, savings and retirement plans, mutual and segregated funds, securities, auto and home insurance, mortgages and car loans, creditor insurance, and extended warranties.

A deeply discounted stock

Industrial Alliance's stock currently trades at just 10 times fiscal 2016's estimated earnings per share of $4.58 and a mere 9.8 times fiscal 2017's estimated earnings per share of $4.64, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 13.9. With its five-year average multiple and the strength and stability of its business model in mind, I think its stock could consistently and safely trade at a fair multiple of at least 12.

A safe, reliable, and growing dividend

Industrial Alliance pays a quarterly dividend of $0.32 per share, representing $1.28 per share on an annualized basis, and this gives its stock a yield of about 2.8% at today's levels. This yield is very safe when you consider that its net earnings totaled $2.31 per share and its dividend payments totaled just $0.62 per share in the first half of 2016, resulting in a very conservative 26.8% payout ratio, which is at the low end of its target range of 25-35%.

Investors must also note that Industrial Alliance has raised its annual dividend payment for two consecutive years, and its two hikes since the start of 2015, including its 7.1% hike in June 2015 and its 6.7% hike in May of this year, have it on pace for 2016 to mark the third consecutive year with an increase.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:IAG (iA Financial Corporation Inc.)
2. TSX:TFII (TFI International)

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