This Unspectacular Stock Yields 4%

Description

Are you looking for a “safe” 4% dividend yield?

If that’s what you’re after, a clear favourite of mine is **Canadian Imperial Bank of Commerce**, the Canadian bank stock I believe investors should own in 2017. It yields 4.5%, and CEO Victor Dodig has the unloved bank on the right flight path.

As stocks go, Canadian banks are perennially favourites.

However, if you’re concerned about diversification, you’ve got to step out from behind the safety net of the banks and consider other dividend-paying opportunities.

Evertz Technologies Limited (TSX:ET) is an Ontario-based manufacturer of software and hardware products and services designed for television broadcasters and other content creators who require HDTV and internet protocol (IP) solutions.

It has grown revenues 4.4% annually over the past five years, an incredibly unspectacular rate of growth. Evertz has managed to keep operating profits in recent years relatively stable and growing despite operating margins declining by more than 16 percentage points over the past decade.

Simply put, you’re not buying into **Apple**.

That said, its free cash flow in fiscal 2016 was $87 million, or $1.18 per share, leaving plenty for its annual $0.72 dividend. On December 1, 2016, Evertz announced a $1.10 per share special dividend which was paid to shareholders 18 days later. As of October 31, 2016, it had $133.4 million in cash or cash equivalents and just $888,000 in long-term debt, leaving its balance sheet in the pristine state it’s always been.

Currently yielding 4.4%, Evertz stock has risen steadily since, hitting its 10-year low of $9.75 at the end of 2008. That’s an annual total return of 7.1% with an approximate 55%/45% split between dividends and capital appreciation. More importantly, it hasn’t had a negative annual return since 2011 and is up almost 10% in the last 90 days.

If preservation of capital is something you’re adamant about, Evertz is a good place to have your money.

By now, I think you’ve got the picture about the company. It’s unsexy in a good way. The only question that needs answering is, are there any catalysts that could push its average annual return beyond 7.1% to double digits?

There are two.

First, in its Q2 2017 earnings report, it announced that it had a record backlog of $72 million and shipped $39 million of product in the month of November — also a record.

In December, it announced a partnership with **Discovery Communications**, the same people behind the launch of Oprah Winfrey's OWN Network in 2011, which should see it generate more business from its Mediator-X media asset-management solution, which will allow Discovery and others to store and manage video and multi-media files in one place in a safe and easily accessible manner.

Time will tell how big a deal this will be.

The second catalyst is the possibility of future special dividends. Evertz is currently generating $87 million in free cash flow for a cash return (FCF/enterprise value) of 7.6% — better than many of its peers. Any progress on the first catalyst will definitely translate to the second, increasing investor demand for its stock.

The beauty of this is that even if Mediator-X doesn't turn out to be the best thing since sliced bread, income investors have themselves a nice, unspectacular 4.4% dividend yield.

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