Dividend Investors: A High-Yield Stock You Shouldn’t Overlook

Description

Investors often turn to the usual suspects when choosing dividend stocks for their portfolios, but it is worth the effort to look beyond the names you here repeated every day on your favourite business news channel.

Let’s take a look at **Russel Metals Inc.** (TSX:RUS) to see why it might be an interesting pick today.

On the rebound

Russel Metals is one of North America’s largest metal distribution companies, with business lines that include service centres, energy products and steel distributors.

The company expanded its presence in the energy segment just before the oil downturn, and that move hit the stock through the second half of 2014 and through most of 2015.

In fact, Russel slipped from $36 per share at the peak to below $16 early last year.

Contrarian types who had the courage to step in at the lows are getting great return on their investment from both the dividend and the rise in the stock price.

At the time of writing, Russel trades for $26.50 per share.

Improving numbers

Russel has worked hard to match expenses with business activity through the downturn and that is helping the company improve its financial performance.

For Q4 2016, Russel saw a 1% improvement in revenue in the service centres compared to the previous year, while gross margins improved from 19.1% to 20.6%.

Energy segment revenue for Q4 dipped 12% compared to the final quarter in 2015, however, gross margins doubled to 13.8%. Management was able to lower operating expenses by 15%, which helped the energy division report an operating profit of $5 million, compared to an operating loss of $15 million in Q4 2015.

North American rig counts remain near historic lows, but Russel is positioned well to benefit as the industry recovers.

The steel distributor segment saw improved results in Q4 2016, with revenue up 11%, and operating profits hitting $8 million in the quarter compared to a loss of $18 million in Q4 2015.

Stronger pricing primarily drove the gains, and investors could see the Q1 2017 numbers show the trend has continued.

Dividend

Russel held its dividend steady through the downturn, so investors who bought in early 2016 are enjoying some sweet yields.

The quarterly payout of $0.38 per share currently provides a yield of 5.75%, so the stock is still providing a nice return.

Should you buy?

The energy sector remains under pressure, but it looks like the worst is probably over. Russel has done a good job of reducing expenses and the company is positioned well to benefit from a recovery in the broader metals distribution sector.

If you are looking for an above-average yield to tuck away in your TFSA income portfolio, Russel might be worth a shot right now.

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