Find Dividend Growth and Capital Appreciation With Fruit Juice

Description

Understanding the risk/reward proposition before purchasing any stock is critical. One approach is to categorize stocks as either defensive or cyclical. Let's take a look at each category to better understand the potential for profit and loss.

Cyclical stocks

Cyclical stocks are influenced to a much higher degree by the vicissitudes of economic cycles. Companies that fit into this category will typically experience a significant decline in revenues and profits in a recession. The result can be a very large drop in the share price in a short period of time.

The good news is that when coming out of a recession, the opposite is true. When the economy is improving, shares can increase dramatically as revenues and profits have the potential to double or triple. These stocks are much more volatile.

Defensive stocks

Defensive stocks are characterized by having steady revenues and profits regardless of the economic cycle. Oftentimes, these companies offer lower returns on equity and are much less volatile as investors are keenly aware of the high probability a company will be able to deliver on expectations. As an example, grocery stores are defensive securities since people need to buy food regardless of the economic cycle.

If you want to find a new defensive name to add to your portfolio, shares of **Lassonde Industries Inc.** (TSX:LAS.A) fit the mould. The company derives the majority of revenues from the sale of fruit juice and pays a dividend with a very low payout ratio. This stock may have a lot to offer.

If we evaluate the financials over the past four years, we see that the company has increased revenues from $1,040 million in fiscal 2013 to $1,509 in fiscal 2016. (The fiscal and calendar year ends are the same.) The compounded annual growth rate (CAGR) in revenues over this period is nothing short of 13.2%, while earnings per share increased from $6.44 in 2013 to $9.79 in 2016. The CAGR of earnings is 14.98%. Clearly, management has done an excellent job in driving revenues, reaching economies of scale, and managing expenses.

For investors looking at this security for the first time, the good news is, things are going well. Revenues are increasing, net income is increasing, the dividend is increasing, share count is stable. This may be an excellent long-term investment.

The dividend yield, which is currently less than 1%, is where the opportunity lies. For fiscal 2016, the dividend payout ratio as a function of net income was no more than 20%. In previous years, the dividend-payout ratio was 19.9% (2015), 24.5% (2014), and 23% (2013). With under $7 million shares outstanding and dividend payments which accounted for no more than $14 million during fiscal 2016, the company may be ready to finally increase the dividend in a meaningful and sustainable way.

The stock is currently trading near a price of $240 per share, and the trailing price-to-earnings multiple is close to 25 times. While this may be expensive to some, investors need to remember the defensive nature of the company and high probability of continued revenues and earnings.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:LAS.A (Lassonde Industries Inc.)

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