Dividend Investors: Looking for A 5% Yield With Significant Upside?

Description

Bird Construction Inc. (TSX:BDT) is an interesting name in the Canadian construction space to consider for an income-focused portfolio. The company's current dividend yield of nearly 5% follows a dividend cut in which the construction firm cut is dividend nearly in half earlier this year.

I'm going to discuss Bird's prospects moving forward and why this company may be safer than some pundits may think.

Backlog of projects improving

One thing I look to with a construction or manufacturing firm is the strength of the company in being able to generate work and, in particular, a backlog of orders for future work.

A construction or manufacturing firm is, in some ways, safer than other firms in non-traditional industries in that a work backlog is one way investors can reasonably estimate the future free cash flow generated by the company, making such companies slightly easier to value than others.

In the case of Bird, the company's backlog of projects has improved over the previous quarter, having secured $421.3 million of new contracts and completing $309.8 million of previous contracts, increasing Bird's overall backlog approximately 10% to $1.25 billion in Q1 2017 from $1.14 billion in Q4 2016.

The quality of contracts has also improved with Bird receiving new projects to design, build, finance, operate, and maintain a biosolids management facility in Hamilton, Ontario, as well as a new $200 million contract to build a Fraser Health mental care facility in New Westminster, British Columbia.

These contracts should help the company bolster earnings moving forward, given the recent drop in profitability resulting from a shift of higher-margin industrial projects toward lower-margin commercial and institutional projects.

Dividend

Bird's dividend yield remains impressive, and many analysts have actually considered the dividend cut to be a good thing, because it adds stability to the yield and reduces the cash flow burden on the company in the short term.

The company has remained committed to maintaining a high dividend yield and payout ratio for shareholders, and with profitability expected to improve in the coming quarters, investors may also see gains on the capital appreciation side of the equation as free cash flow increases over time.

Risks

All this aside, Bird remains closely tethered to specific macroeconomic risk factors that other companies may not feel as much. The risk of a housing correction, for example, in some of the major markets Bird operates in may impact the macroeconomic environment in such areas, leading to broader declines within the industrial, commercial, and institutional sectors, potentially hurting Bird over the medium term.

The construction space is cyclical, and the industry tends to follow growth trends which change over time. The risk that Bird's backlog of orders get revised or cancelled due to continued softening in specific Canadian markets should not be understated.

Bottom line

Bird is a company I believe to be undervalued at current levels, and while certain risk factors exist and should not be ignored, I believe the company's backlog of orders provides a decent buffer for investors looking at buying a solid company with a high yield for the long term.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BDT (Bird Construction Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/21

Date Created
2017/06/12
Author
chrismacdonald