Evertz Technologies Limited: A Little-Known Stock With a Much-Loved Dividend Yield

Description

Evertz Technologies Limited (TSX:ET) designs, manufactures, and markets video and audio infrastructure solutions for television, telecommunications, and new media industries.

The broadcast equipment market is experiencing a secular shift and is being fueled by the following factors:

- The transition from analog to digital;
- Growing demand worldwide for HDTV;
- Government mandate for digital;
- The fact that broadcasters are in the process of building their infrastructure.

The geographic breakdown of the company's revenue in 2015 was 56% U.S./Canada and 44% international (U.K., Europe, Asia, and Middle East).

Strong demand, as evidenced by accelerating revenue growth in the fourth quarter of fiscal 2017, where revenue increased 11%, is increasingly becoming the norm for Evertz. This follows a 5% increase in 2016 and an 11.7% increase in 2015. Breaking down the revenue growth by geography, revenue in the U.S./Canada region increased 13%, and revenue in the international region increased 8%.

Furthermore, the company continues to report record levels of shipments plus backlog, coming in at $129 million in May ($36 million shipped and $93 million backlog) compared to historical levels of well below $100 million.

These increases can be attributed to the company's strong investment in R&D and consequent product innovations as well as growth in the market as a whole.

Increased investment in R&D should support continued innovation and revenue growth. In the latest quarter, R&D as a percentage of revenue was 19.2%, an increase from the same quarter last year of 17.5%. A key to the company's success going forward is to continue to invest in R&D to remain at the forefront of product offerings and innovation in its markets.

Evertz intends to take advantage of its strong balance sheet to support growth, and with over $54 million of cash on its balance sheet and no debt, the company is well positioned for acquisitions to broaden its product offering and its reach.

And while an acquisition may be forthcoming, the company chose to return some of this cash to its shareholders in the form of a special dividend. In fiscal 2017, Evertz paid dividends totaling $137.5 million, of which $83.2 million was a special dividend. This strategy of paying out a special dividend is an astute one, as it gives the company more flexibility as to uses of cash going forward.

So, with a regular annual dividend of $0.72 per share (4.13% dividend yield), the possibility of more special dividends and/or an acquisition in the future as the company aims to make use of its strong balance sheet, and an attractive valuation (17 times this year's expected earnings), the stock is a good addition to investors' portfolios.

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Date
2025/07/04
Date Created
2017/06/15
Author
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