In a Crowded Market, This Stock Looks as Good as Any

Description

We are now in the eighth year of the current bull market, and it is getting as difficult as ever to find undervalued stocks.

Much of the low-hanging fruit has already been picked, meaning investors need to look harder and tread more carefully than they have up to this point.

Even the industrials sector of the market, despite knock-on effects from a weaker energy market, is reaching a saturation point.

Stocks such as **Snc-Lavalin Group Inc.** (TSX:SNC) and **Bombardier, Inc.** (TSX:BBD.B), which once promised rewarding returns, now seemed destined languish near current levels.

Snc-Lavalin is trading at all-time highs following a 62% rally in 2016. Yet so far in 2017, the stock has been range-bound in the low $50s without much to suggest shares will be moving higher any time soon.

Bombardier, meanwhile, has rallied an impressive 142% since the start of 2016, but it's mostly been flat in 2017, as the company's financial troubles are not yet firmly in the rear-view mirror.

And while Snc-Lavalin's dividend yield is low at 1.15%, Bombardier shares do not pay a dividend at all.

The current environment is making it extremely difficult for Canadian investors to find high-quality industrial names to round out their portfolios — especially for those investors looking to add yield to their returns.

Looking south of the border, there is an opportunity to invest in an industrial behemoth which, while it has found itself on hard times lately, has proven to stand the test of time, and, in addition to that, pays a healthy 3.94% dividend today.

General Electric Company (NYSE:GE) has been around for over 100 years, and with a market capitalization of $210 billion, it stands as one of the largest publicly traded companies in the world.

Over the past five years, GE has undergone one of the biggest corporate restructurings in American history, divesting much of the GE Capital business that got the company into trouble during the 2008-09 Financial Crisis, and it has transformed itself into a leaner, meaner industrial powerhouse.

But the company's performance has suffered as of late, as energy clients have been forced to hold off on capital spending amid lower oil and gas prices.

One of the key benefits of investing in the shares of GE is that the company's operations are well diversified, meaning the company is not overly reliant on any one business unit or end market.

The company's recent performance speaks to this; while profits from GE's power business were down

37% in 2016, overall profits showed an upward trend throughout the year and into 2017.

And while on the surface, GE’s payout ratio looks risky at 109%, the company’s cash flow from operations is much stronger than what accounting earnings (the measure by which the payout ratio is calculated) would suggest.

With Government of Canada 10-year bonds yielding 1.55%, and 10-year U.S. Treasuries not much better at 2.20%, a 3.94% dividend from a high-quality, blue-chip company like GE looks all that much more attractive.

Add to this that GE shares are trading near 52-week lows and are valued at a price-to-earnings ratio of 14 times, a steep discount to historical averages, and investors looking to add an industrial name to their portfolios may not have to look any further.

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3. TSX:BBD.B (Bombardier)

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