This Little-Known Gem Has a 4.2% Dividend Yield and Looks Ready to Take Off

Description

Evertz Technologies Limited (TSX:ET) designs, manufactures, and markets video and audio infrastructure solutions for television, telecommunications, and new media industries. This is an industry that is experiencing rapid change, and Evertz is well positioned to benefit from these changes.

Industry drivers

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, and the fact that broadcasters are in the process of building their infrastructure.

Complexity in the industry is increasing, with more channels and faster bandwidth, and this means that Evertz's solutions are and will continue to be increasingly needed.

Growing demand

The company is seeing strong demand, as evidenced by accelerating revenue growth in the first quarter of fiscal 2018, when revenue increased 25% versus last year to $109 million. This follows a healthy but weaker fourth-quarter revenue growth of 11%.

The company's backlog currently stands at $111 million, which compares to historical levels of below $100 million.

Keeping its advantage

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.

And continued investment in research and development should support continued innovation and revenue growth. In the latest quarter, R&D as a percentage of revenue was 18%, and this has been key to the company's success, as this investment has and will enable the company to remain at the forefront of product offerings in its markets.

Balance sheet to fuel growth

Evertz intends to take advantage of its strong balance sheet to support growth, and with over $72 million of cash 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, as of the latest year, 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 as opposed to increasing the regular dividend is an astute one, as it gives the company more flexibility as to uses of cash.

So, with a regular annual dividend of $0.72 per share (4.2% 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 (18 times this year's expected earnings), the stock is a good addition to investors' portfolios for growth and yield.

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karenjennifer