



1 Beaten-Up Dividend Stock: Is it a Bargain?

Description

Bargain hunting can be a hugely rewarding contrarian investment strategy — more so if executed on distressed dividend-paying stocks with significant recovery potential.

Currently undergoing severe financial turmoil, **Callidus Capital Corp.** (TSX:CBL) stock is trading near its all-time lows and offering a forward dividend yield of 18.46% following a 40% plunge in April this year after reporting a staggering annual loss for the year 2017 — largely driven by a hefty loan loss provision related to an unidentified distressed energy company.

Callidus is a specialty asset-based lender serving the Canadian and U.S. market with a special focus on companies that are unable to obtain adequate financing from traditional lenders. The company's loans are generally issued on a fully collateralized basis with targeted gross yields of approximately 13-17%.

The company's loan book, comprised of 19 loan positions, has grossly underperformed of late, and the net interest margin recently turned to a negative 0.4% for the first quarter of 2018 from +7.7% during the same quarter last year. Allowances for loan losses or goodwill impairment have been increasing consistently for the past several quarters.

Even after a sustained recovery to \$6.38 a share from an all-time low of \$3.76 touched on April 3, the stock has shed 33.5% of its value on a total return basis this year.



Year-to-Date performance for Callidus Capital Corp. stock. (as of May 28, 2018)

Juicy dividend?

Callidus continues to declare a \$0.10 a share monthly dividend, and this may continue for some time.

The company's dividend-reinvestment plan (DRIP) has significantly reduced the cash dividend payout. The company's major shareholders, the Catalyst Capital Group Inc. and Braslyn Ltd., continue to exercise their right to participate in the DRIP. As a result, over 80% of the amount of the monthly dividend may be distributed in stock, and the cash payment could be less than \$1 million!

Callidus may continue paying the monthly dividend as long as the major shareholder, Catalyst Capital, which controls a 71.5% interest in the business, continues to DRIP its hefty dividend and further dilute minority shareholders out.

Well-timed stock buyback

Soon after the April stock price plunge, management announced a move to repurchase up to 2.65 million units of outstanding common stock, representing about 5% of its issued and outstanding common shares as of April 2, 2018, allowing the company to significantly reduce outstanding stock at a very low cost, with the remaining shareholders betting on better rewards should privatization deal go through at favourable price.

Time to buy?

There are significant risks in the Callidus's lending business today. The company couldn't generate a positive net interest margin in the first quarter of this year, with positive gross earnings being generated from a portfolio of acquired business (which failed to repay their loan obligations to Callidus and were

acquired as collateral.)

Out of the six acquired businesses, only three are currently generating positive gross profits, notably a forestry products entity, which generated \$4 million, or a 19% gross margin. The gaming business, at nearly 55% gross margin last quarter, holds great promise with new [legal developments](#) in the global gambling sector.

However, the forestry products business is facing NAFTA headwinds. Last year, approximately 70% of its sales volumes were to the U.S., and effective December 28, 2017, the combined countervailing and anti-dumping duty imposed by the United States is 20.23%.

The recently acquired paving business, though seasonal, could hold promise. The drilling entity could enjoy better business growth, as the oil economy improves throughout 2018, and new drilling contracts are issued, as the North American oil drilling sector expands exploration budgets and as oil prices sustain new highs.

Improvements in Callidus's business portfolio will allow the businesses to be sold at favourable terms and allow the lender to realize good recoveries on initial advances at better margins.

Foolish bottom line

Callidus is a pure speculative play. The hefty monthly dividend may be suspended any time, as the company is increasingly losing money, but the net cash payout is so small that management may wish to maintain the status quo, as long as the major shareholders continue DRIPing.

Hopes remain that management may be successful in striking a privatization deal in ongoing talks. However, such efforts have been going on for the past several months with no deal reached yet, while the company's book value of equity has continued to go down.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/25

Date Created

2018/05/28

Author

brianparadza

default watermark

default watermark