Exco Technologies Ltd. (TSX:XTC): 1 Canadian Dividend Stock That Might Not Be on Your Radar

Description

Canada has a number of excellent dividend-paying stocks. For the most part, investors tend to stick to the large-cap, dividend-paying stocks. Generally, this has meant buying the banks, large utilities, and telecoms.

Don't get me wrong, these companies should have a place in any Canadian dividend investors' portfolio. But it can be worth taking a look at some of the smaller companies that Canada has to offer. There are a number of small companies that have paid out and raised dividends for many years, have decent balance sheets, and significant growth potential.

One of these smaller companies is **Exco Technologies Ltd.** (TSX:XTC). Many investors are familiar with large Canadian auto companies such as **Magna International Inc.** and **Linamar Corporation**, each of which pay great dividends. The much smaller Exco is another automotive stock that operates in a slightly different corner of the industry than Magna or Linamar.

Exco has three operating segments. The first is Automotive Solutions, which sells custom parts, such as leather seat covers, seat trim, and various in-vehicle storage solutions. Diecast and Extrusion Tooling Solutions segment of the business creates consumable parts for casting and extrusion machines primarily used for producing aluminum parts.

Revenue at Exco has steadily increased by 19% on an annualized basis. Unfortunately, the most recent quarter was a bit of a disappointment, with sales decreasing 4% year over year. Net income also decreased by 16%, adding to investor worries. Most of the decrease came from a downturn in North American auto sales, with a positive European automotive market helping offset these losses.

The company has been raising its dividend annually since 2009, and at current prices it has a quarterly yield of around 3.5%. Supporting this dividend is a solid balance sheet. Exco also boasts ample amounts of cash, enough to pay down almost all of its current and long-term debt if it so desired.

Given the company's track record and strong financial position, this might be a good time to buy, as pessimism pushes down the stock price. Long term, its exposure to emerging markets, although a drag on the stock price right now, might eventually become a major driver of growth for the company. All the same, it would be wise to continue to watch the company's finances to see if the drop in revenue is a one-time blip or an indicator of more serious issues at the company.

Although there are many positive reasons to own the stock, there are risks. Changing political climates, both abroad and at home, are potential headwinds the stock could face in the future, especially since Exco is committed to expanding its presence in emerging market economies. If a recession were to hit the countries where Exco does business, the company would most likely see a decrease in sales and therefore cash flow.

Exco had been through many cycles in its history, so chances are the company will survive.

Remember to monitor the balance sheet, sales, and cash flow to see if the company remains strong during difficult times. The stock’s strong financial position, geographic footprint, and decent divided could make this a good company to own as a dividend play for the long term.

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