Patient Value Investors Should Like This 4% Yield

Description

I don’t think there is a TSX stock that I’ve been more wrong about over the past two years than **Intertape Polymer Group** (TSX:ITP), and it frustrates the heck out of me.

In July 2016, I picked ITP as one of four stocks to outperform over the next three to five years, with Intertape representing the basic materials sector.

“Yielding 3.2% at the moment, Intertape is up 16% year to date and has generated a five-year annualized total return of 58%,” I wrote at the time. “Think of it as a cheaper version of **CCL Industries Inc.**”

Intertape was part of a grand experiment to demonstrate how a portfolio with a smaller number of stocks isn’t the end of the world. Bright idea, Will!

Down she goes

Well, if you’ve owned ITP since the middle of 2016, you’re probably acutely aware that its current 4% yield isn’t a good thing, given it hasn’t increased its $0.14 quarterly dividend since that time.

Translation: its dividend yield is higher today than it was in 2016, which means its share price has moved lower by 15% over the past 23 months. Talk about reversion to the mean.

As a result of its two-year slide, ITP stock is trading at a much lower valuation, prompting some value investors to reconsider its 4% yield.

Should you be one of them?

Fool contributor Kay Ng thinks so but warns investors they shouldn’t expect 38% upside over the next 12 months just because analysts have a price target of US$19.40, or $25.22 in Canadian dollars.

"Intertape looks like a bargain for a long-term investment (think three or more years)," Ng wrote June 20. "Instead of thinking that it'll deliver 38% upside in the next 12 months, it's more conservative to think that it can deliver an annualized rate of return of about 13% over the next three years, plus or minus 2% as a margin for error and to account for currency exchange fluctuations."

Or look at Intertape from another perspective.

Over the past 10 years, it's delivered to investors an annualized total return of 21.8%, significantly greater than the 11-13% Ng's suggesting would be a reasonable expectation over the next 36 months.

Of course, ITP stock has been wildly erratic over the years with big hills and valleys. For example, in 2011, ITP had an annualized total return of 183%; the year before it was down 61%.

You know what they say about big losses? If you have a 50% loss in your first year holding a stock, it takes a 100% gain the next year to get back your losses. If short-term preservation of capital is your primary concern, Intertape isn't your stock.

However, if you take out the best year (2011) and the worst year (2008, down 65%) from the past decade, you get an average annualized total return of 50%, considerably higher than the 13% from above.

Patient money could do well

The key word here is patient.

I've expected Intertape to perform far better than it has the last two years; sometimes it's hard for a stock to come out of a downward trend when there are few catalysts to shake it out of its lethargy.

Also, Intertape hasn't traded above $25 on a consistent basis since 1999. It's possible that the company's best days are behind it.

That's the cynical view.

The glass-half-full view is that its valuation metrics across the board are lower today than at any time over the past five years.

If you buy now, Intertape will pay you 4% to wait for the next big catalyst. What that is, I couldn't say, but I do know that Intertape is investing more in its business today than it ever has, and that should help it meet the company's goal of US$1.5 billion in revenue and at least US$225 million in adjusted EBITDA by 2022.

If you're patient, betting on ITP should pay off.

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Date
2025/07/21
Date Created
2018/06/24
Author
washworth