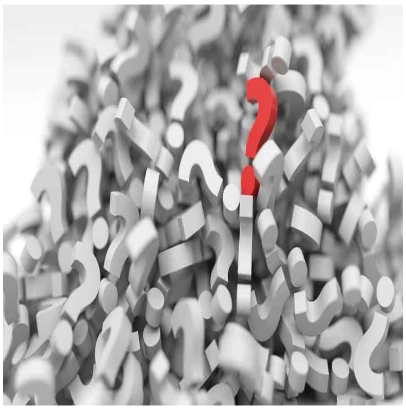

Is ZCL Composites Ltd.’s (TSX:ZCL) High Dividend Worth Adding to Your TFSA Today?

Description

Debt has been a bit of an issue for many TSX-listed companies in recent times. Luckily, the TSX still has a number of companies, both large and small, that shy away from using high amounts of leverage in their operations. With rising rates and other dark clouds on the horizon, a company with a solid balance sheet will be resilient or even benefit from potential turmoil in the economy or the stock market.

One small company that has a pristine balance sheet, a big dividend, and some growth prospects is **ZCL Composites Ltd.** (TSX:ZCL). As North America’s largest manufacturer and supplier of environmentally friendly fiberglass-reinforced plastic underground storage tanks, the company has secured a niche that has provided good financial results for several years. But would the company’s hefty dividend be worth putting it into your TFSA for the long haul?

Oil and gas is its biggest segment, and it has noted that this is a relatively mature market. Its connection to the oil and gas industry has also been a bit of a headwind for the stock over the past couple of years, as oil companies reduced spending to navigate the oil downturn. With the turnaround in the oil sector, though, ZCL may be positioned to benefit and capitalize on increased oil and gas spending.

It is the Water & Wastewater component that is particularly appealing. For years, this segment of the market was dominated by concrete tanks; replacing them with fiberglass-coated plastic tanks may be more environmentally friendly. This segment is a relatively small part of ZCL’s business at the moment, though. However, while it may provide the company with less current revenue, there is the possibility for faster growth in the segment.

Financial results for the first quarter were not great, as was reflected in the stock price retreat. Year-over-year revenue was relatively flat. Earnings were down 33%, as compared to the previous year and gross profit was down 24%. ZCL did note that its business is somewhat seasonal, so the relatively cold winter may have played some role in its results. That being said, these results definitely accelerated the stock’s retreat.

One of the most interesting aspects of the stock is the dividend. At the current market price, the stock is yielding almost 6%. Furthermore, ZCL has raised the dividend for several years, including a recent raise of 13%. The biggest concern to the dividend is the payout ratio, which has crept higher with the dividend. If financial results do not pick up, this could impact further increases, although the rate of increases and special dividends speak to the company's confidence in its financial future.

ZCL is at an interesting point to consider as a potential position in a Canadian dividend portfolio. Stocks become cheaper when there is uncertainty, so it is up to the investor to determine whether it is cheap for a reason or if it is an opportune time for investment.

In the case of ZCL, it might be a good time for a dividend investor to take a small position in the stock. The most appealing factors are the strong balance sheet and high, recently growing dividend. The balance sheet is not strong as a result of share issuance, which is a good sign, and the company has no debt to mention. Its cash position is solid, so it should be okay in the near term.

Investors should watch its financials carefully in the coming quarters to get a better idea of whether the decreases are a trend or whether it was indeed the result of weather-related complications and one-time costs. All in all, I would probably buy this in a taxable account as opposed to a TFSA because of the aforementioned uncertainties. Dividends are taxed favourably, and you can always write off the capital loss if the stock falls. In the meantime, enjoy the dividends if you choose to purchase the stock.

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
2025/08/26
Date Created
2018/07/25
Author
krisknutson