2 Undervalued Small-Cap Dividend Stocks That Are On Sale Now

Description

Every once in a while, we are presented with opportunities that are too hard to pass up on — opportunities that provide investors with the potential for extraordinary returns.

For investors who are looking for dividend stocks with large return potential and a favourable risk profile, look no further.

Here are two such undervalued small-cap dividend stocks that you may want to consider buying.

Freehold Royalties (TSX:FRU)

Freehold is trading at bargain prices these days.

While the price of oil has increased 37% in the last year, Freehold stock has declined 16.5%.

This is despite the fact that Freehold offers investors a relatively low-risk way to play the energy space, with a 5.3% dividend yield, a well-diversified asset base, and a low-risk business model with relatively predictable cash flows and a strong balance sheet.

Furthermore, this company has a long history of value creation — a history that long-term shareholders have done very well with. Over 21 years and more than $30 per share have been paid out in dividends.

And with a payout ratio of only 55%, investors have enjoyed dividend increases in recent times, as the company's free cash flow generation has increased dramatically in accordance with the increase in oil prices.

Dividend payments bottomed in 2016 at $0.54 per share and have subsequently been rising since then to $0.58 in 2017 and, according to management's forecast, $0.63 this year.

The company generates a free cash flow yield of approximately 10% at $65 oil and is well positioned to continue to create real value for shareholders.

Evertz Technologies (TSX:ET)

Evertz 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.

The broadcast equipment market is experiencing a secular shift that 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.

The company's backlog currently stands at $117 million, which compares to historical levels of below $100 million and is reflective of strong demand and a strong 2019.

Yet, the stock remains undervalued, trading at below 20 times this year's expected earnings, and the dividend yield remains attractive at 4.61% and well covered by cash flows of the business.

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.

So, with a regular annual dividend of $0.72 per share (4.6% 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, Evertz is a fantastic growth and dividend stock.

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2. TSX:FRU (Freehold Royalties Ltd.)

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Date
2025/08/26
Date Created
2018/08/11
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