Is It Time to Buy This Stock With a 6% Yield?

Description

Russel Metals Inc. (TSX:RUS), is once again hitting 52-week lows. The Canadian metal manufacturer has been under pressure from a variety of sources which has caused the stock to sell off significantly over the last couple of weeks. This stock has a number of positive attributes that could potentially make it a value investors dream.

The fact that the oil price, especially in Canada, has been under pressure is definitely one factor that is hitting the stock. Russel provided a variety of metal solutions to the sector, including piping and pipe fittings. If the energy slump continues once again, there will be an impact on Russel Metals' cash flow. Investors may fear that this could impact the company's ability to pay its dividend, which is quite high at the moment.

While this is definitely a risk and should be considered before purchasing the stock, Russel Metals went through the last oil crisis with its dividend intact. This does not mean that the dividend is guaranteed, but it is reasonable to assume that the company's payout could survive this oil slump as well.

The dividend itself may also be one of the reasons why the stock has come off recently. Russel Metals pays a dividend of over 6% at the current reduced, price. The stock might have become attractive for income investors, making this a bond proxy of sorts. With yields rising on safe investment alternatives, investors might have decided to dump the significantly riskier equity to switch to the safety of bonds or a GIC.

It is a little hard to believe that Russel Metals could be considered a bond proxy, but given investors desire to squeeze yield out of investments in recent years, it is a possibility.

These reasons are definitely factors to monitor, but it is more important to determine whether the company is a good investment at the reduced price or whether investors would be better served avoiding the stock altogether. Russel Metals is fairly cheap, trading at a trailing price to earnings of 7 times earnings and a price to book of 1.5. Unless earnings fall off precipitously in the near future, there is probably more upside than down.

Its results seem to be supporting the thesis that there is significant value in the stock. As of the third quarter of 2018, revenue experienced 34% year-over-year results. Revenues in the energy segment increased 38% alone. Net income doubled over the same period, indicating significant sales growth. The average selling price of metal increased 28% over 2017, positively contributing to the growth in earnings and revenues.

The company has made some acquisitions, so its balance sheet is by no means debt free. But it's not in terrible shape either, with enough cash on hand to cover a significant portion of at least its short-term debt if the need arose.

Russel Metals is a company worth considering as a small, semi-speculative dividend play. Since it does derive a significant portion of its revenue and earnings from the energy sector, a prolonged downturn could be negative for the company. But the dividend is attractive, the valuation is compelling, and the company has proven it can navigate tough times. While this may not be a stock that a highly conservative investor would buy, the potential rewards appear to outweigh the risks at the moment.

An investor with a long-term horizon and a taste for volatility may benefit from owning the stock, but it might be best for more conservative investors to stay away.

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