



3 Small Value Stocks With Big Yields

Description

The Canadian stock market has a number of tiny stocks sporting big dividends. While these companies can be riskier than their larger counterparts, they give investors the opportunity and the choice to diversify away from larger, blue-chip stocks that generally make up most Canadian investors' portfolios. Here are three stock you can check out if you feel like rolling the dice on a small company with a big dividend.

Supremex ([TSX:SXP](#))

With the highest yield of the three stocks, SXP is a tempting play for contrarian investors. The stock has been hit hard over the past year, falling from around \$6 a share in 2016 to just under \$3 a share in recent trading. The capital loss has resulted in a huge yield of 9.56%, making this a stock worth checking out.

As a label, envelope, and packaging producer, SXP is positioned well to profit from the shift towards online marketing. The company has made acquisitions to build its business, which has had a negative impact on the balance sheet. Its long-term debt obligations and goodwill as a percentage of assets have crept higher, resulting in higher fragility in the balance sheet.

The valuation for this company is [very cheap](#). SXP currently trades at a price-to-trailing-earnings (P/E) multiple of six times earnings. It is also trading at half of its book value, but investors should note how much of its book value is related to goodwill.

High Liner Foods ([TSX:HLF](#))

This well-known food supplier has had its own troubles in recent years. Its multiple acquisitions have added to its debt, making this a rather leveraged play. Goodwill makes up a large portion of its balance sheet — another byproduct of acquisitions.

But there are a number of positive aspects to owning this name. The dividend yield is quite significant at the current price at about 8%. This high yield and the company's debt indicate the dividend is at risk for a cut, though.

On a valuation basis, High Liner looks cheap relative to other companies in the space. It is currently trading at under six times trailing earnings and a price to book of 0.7 times book value. The book value is misleading, though, since its goodwill makes up a disproportionately large percentage of that book value. As such, you need to have confidence in the quality of its brands to make an investment.

Intertape Polymer Group ([TSX:ITP](#))

The company, as the name implies, produces [adhesive tapes](#) for a number of industries. Similar to SXP, ITP is set to benefit from the continued transition to e-commerce, with some of its tapes used for packing. It also produces various electrical and manufacturing adhesives.

ITP has the lowest yield of the group, but it also probably has the most secure payout of the three. The company's current yield is just under 4%, but that yield has been growing over time.

It also happens to be the most expensive stock, trading at a P/E of 11 times trailing earnings and a price to book of 3.4. You are paying up for quality. Like the other two companies, ITP has a fair amount of debt due to its acquisitions. Unlike the other two, ITP's goodwill doesn't dominate the assets on its balance sheet.

The final verdict

One of the most significant facts to consider is that these small stocks may never get the capital inflows that larger, blue-chip names will get. Even if a company is profitable, and even if it has a great balance sheet, a small company might receive investments from institutional and international investors. Without these large fund flows, it may be difficult to generate meaningful capital gains.

Each of these companies has a different risk profile and potential reward. As a cautious investor, I personally prefer ITP over the other two stocks. It has a stronger balance sheet of the three stocks and has the best potential for dividend growth. Even though the other two stocks have bigger dividends, their large amounts of debt and goodwill-heavy balance sheets might indicate potential trouble ahead for their dividend and possibly for the companies themselves.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)
2. TSX:ITP (Intertape Polymer Group)
3. TSX:SXP (Supremex)

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