



Buy This Small Cap Dividend Stock for Explosive Growth in Your TFSA

Description

We're all looking for the next big stock that will provide our [TFSA](#) with market-beating returns, but with all the uncertainties in the market today, this seems like a difficult task.

It can be done, however, and if we keep our eyes not only on the potential upside, but also on limiting downside risk, we will come out with stocks that will suit us well.

Trading at approximately \$11, **Tricon Capital Group** ([TSX:TCN](#)) provides investors with a small cap stock with exposure to the U.S. housing market in a big way.

It offers exposure to the rapidly growing rental market in the U.S., as well as the continued gradual recovery of the [housing market](#).

The stock has a five-year return of 30%, but that has not done much in the last few years.

But being a dividend stock, it has at least provided its shareholders with reliable dividend income. The current dividend yield is a healthy 2.55%.

The reasons to own Tricon stock are twofold: Tricon offers a diversified portfolio of real estate assets that are benefitting from strong supply/demand trends; and Tricon stock is undervalued, trading at book value despite its value proposition and the many levers it has and will pull to create income and asset growth.

Real estate portfolio

The rental homes segment accounts for a significant chunk of Tricon's adjusted EBITDA, and in 2018 rents continued to rise over 6.8%.

In its Tricon American Homes vertical, a big percentage of the single-family homes that have been purchased to date have been completed at distressed values through foreclosure sales.

Once acquired, the company invests in home renovations before renting to tenants.

Tricon continues to expand its portfolio of rental homes. The company completed the acquisition of more than 800 homes recently in an attempt to position itself to continue to benefit from the booming U.S. rental market, where rental prices are soaring as much as 10%-15% in some markets.

Additionally, Tricon has been expending into different verticals in order to expand its reach in the real estate market.

The most recent vertical that the company entered was the luxury residence segment, "Tricon Luxury Residence," the company's fourth major business line. This vertical posted adjusted EBITDA of \$11.4 million in the latest quarter, and the company continues to make investments continue in order to ultimately increase rents in this area.

Stock trades at book value

Tricon stock is currently trading pretty much at book value, and with an ROE of almost 20%, a dividend yield of 2.55%, and a healthy balance sheet to support future growth, this strikes me as grossly undervalued.

Final thoughts

Tricon has an excellent track record of growing the business and taking advantage of the opportunity in the U.S. real estate market, as is evidenced by the way management took advantage of the 2008 housing crisis by buying at distressed levels.

While the stock is certainly under pressure due to concerns about the housing market, the fact is that in the areas that Tricon is present, housing prices have remained strong.

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