6 Green Flags Indicate This Dividend Stock Could Rally Soon

### Description

Dividend yields, more often than not, can be deceptive. Sometimes companies pay out more than they can afford, leading to a rush for a coveted yield. Other times, a company pays out much less than it can afford, leading to unattractive dividend yields that miss the attention of income-seeking investors.



In my opinion, Vancouver-based wealth management company **Canaccord Genuity** (TSX:CF) is one of the latter. If you're an active stock picker, you've probably come across this company's research on a wide range of Canadian and American stocks. What you've probably missed is the fact that equity research is only a small fraction of Canaccord's operations.

The company provides wealth management, investment banking, and financial consultation services to companies and individuals spread across much of the developed world. While 80% of revenue last year was generated in North America, the company also has operations in the United Kingdom, United Arab Emirates, European Union, and Australia.

Although the company offers a dividend, the yield is barely 0.65% — one-third the rate on a 10-year Canadian government bond. However, my research indicates six reasons for investors to take a closer look:

## Low dividend-payout ratio

Canaccord's dividend-payout ratio is a mere 11%, which indicates the company is holding back and reinvesting much of the cash it generates. My guess is that the company is building its arsenal for further expansion and acquisitions, like the recently purchased Petsky Prunier LLC, a merger and acquisition specialist based in New York.

## Insiders buying

Insiders have been net buyers of the stock over the past 12 months, deploying $2 million in net inflow. The biggest purchase was driven by Executive Vice President and Chief Administrative Officer Stuart Raftus.

## Earnings growth

Revenue, net income, and diluted earnings per share are all up over the past three fiscal years. The company has swung from a $6 million loss in 2016 to a $82 million profit in 2018.

## Share buybacks

The company has bought back and retired 1,028,700 shares over the past 12 months. Assuming the average price for these purchases was $6, the company has deployed 50% more cash in buybacks than dividends over the past year. However, some of this buyback is offset by the dilution caused by the company's stock compensation to employees.

## Buy ratings

The two analysts who cover the stock, Jeff Fenwick of Cormark Securities and Graham Ryding of **TD Securities**, both have buy ratings on Canaccord Genuity. The average of their respective price targets is $9.25, while the stock trades 33% lower.



## Cash on hand

As of December 31, 2018, Canaccord Genuity reported $931 million in cash and cash equivalents. That covers the dividend and buyback more than 93 times.

## Bottom line

I suspect that Canaccord Genuity is trying to drive growth through the mergers and acquisitions strategies it specializes in. Over the next few years, much of its cash hoard could be deployed in buying financial companies across the world.

If the company can boost the return on equity with this strategy, investors will ultimately reap the benefits of capital appreciation. Meanwhile, there's always a chance management will be more generous with dividends and buybacks.

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1. Editor's Choice

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