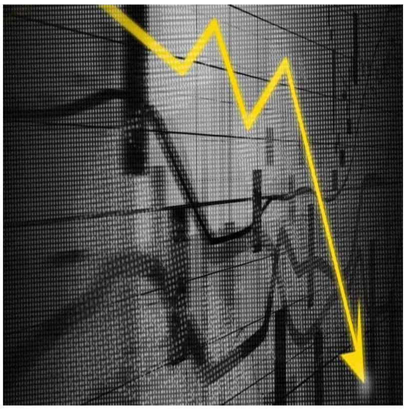

This Dividend Aristocrat Is Trading at 52-Week Lows

Description

Transcontinental (TSX:TCL.A) may not be a company that every Foolish reader is already familiar with.

I certainly wasn't aware of it before. Transcontinental shares recently came up on a screen when I happened to be looking for deeply undervalued dividend-paying stocks on the TSX Index.

Unbeknownst to me at the time, Transcontinental is Canada's single largest printing company. It provides integrated services for retailers, including in-store marketing, direct-to-consumer pamphlets, and brochures to aid in their marketing efforts.

It also provides innovative print solutions for publishers like newspapers and magazines and has more recently made investments to build its packaging materials business.

Sure, it isn't a flashy business, but it works.

Year in and year out, Transcontinental continues to churn along, producing profitably for the firm's shareholders, returning some of those profits in the form of its regular quarterly dividend, and reinvesting any surplus funds back into the business.

In 2018, Transcontinental earned $2.58 of net earnings per share and paid out $0.84 per share in dividends.

In February of this year, management and the board of directors announced that Transcontinental would be raising its payout in 2019 by 4.7% to $0.88 per share. Based on Monday's closing price, that $0.88 annual dividend payout works out to a 5.23% yield for shareholders who held the shares throughout the entire year.

That 5.23% yield, mind you, also happens to be the best value that the Transcontinental shares have offered in terms of their annual yield in a very long time.

In recent years, the printing and packaging industry has gone through a period of consolidation, which included Transcontinental's acquisition of packaging firm Coveris Americas, which closed in the third quarter of 2018, so it could be said that the firm is entering a more mature stage of its life cycle and the higher yield is warranted.

But even still, Transcontinental's $0.88 annual dividend payout represents a payout ratio of only 34% against 2018 earnings, which would appear to suggest that management and the board of directors still have plenty of flexibility with which to move forward as the organization contemplates future dividend hikes, a plan to reduce outstanding debt, and more M&A activity, or some combination thereof.

Bottom line

Maybe like some of the other Foolish readers out there I'm not particularly averse to taking on higher risk plays.

But at the same time, I also value the benefits of following a diversified approach to portfolio management that combines a broad mix of companies with varying risk exposures.

This is where Transcontinental fits the bill for me. It's a decently high-yielding dividend stock that still provides ample room for growth through a combination of dividend increases and an optimistic, well-thought-out acquisition strategy that management lays out clearly in the company's most recent report.

Shares in Transcontinental right now are trading just a shade off their 52-week lows. This stock is deeply oversold and offers investors arguably the best value it has in years.

An investment in TCL shares is an idea that makes a lot of sense to me.

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Date
2025/08/23
Date Created

2019/04/18
Author
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