3 High-Yield Stocks at Bargain Prices

Description

The best income-producing stocks are often widely known by the market, meaning their prices can be bid up aggressively. Fortunately, there are plenty of high-yield stocks that remain under the radar.

Sometimes, however, you'll need to take a bit of extra risk to get additional yield. You may even need to buy them *before* they become high-yield stocks.

If you're looking to some extra dividend income and are willing to wade into lesser-known corners of the market, take a look at these three stocks.

Lucara Diamond (TSX:LUC)

When I wrote about Lucara in March, I'd argued that the share price decline was overdone. Today, the yield remains high at 6.5%.

For a profitable company with a clean balance sheet, why is the dividend level so high?

In November of 2018, shares dropped 25% after revenues and pricing took a hit. Revenues last year fell from $221 million to $176 million. Pricing cratered from $850 per carat to $502 per carat.

Historically, I argued, this pricing decline should be corrected over time, especially when looking at forecasted supply-and-demand dynamics. We're already seeing pricing rebound.

On May 9, Lucara reported that pricing improved to $512 per carat in the first quarter of 2019, up from $401 in the first quarter of 2018. Operating margins per carat doubled from $170 to $343.

With profitability intact, pricing on the rebound, and zero debt, Lucara's impressive dividend should remain sustainable.

Note that insiders own 22% of the company, so you can be sure that they're incentivized to boost the ailing share price.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

What's the use of buying a high-yield stock if the dividend can't be sustained?

Companies often show how they can afford their dividend payout by comparing it to earnings, but EPS is simply an accounting tool. What really matters is cash flow. That's something Crescent Point should have plenty of over the coming years.

In the past, Crescent Point has paid a dividend as high as 8% per year. After deep cuts, it's down to just 0.8%. Don't worry, though — Crescent Point could become a high-yield stock relatively quickly.

This year, the company anticipates generating $600 million in free cash flow. If all of this was paid out as a dividend, the yield would be around 20%!

Instead, management is focused on paying down debt and buying back shares at discounted prices. "70% to 80% of that free cash flow will be directed towards net debt reduction," management said, with the remainder going towards repurchasing bargain shares.

Once debt is down to a reasonable level and shares rebound, expect the company to increase its dividend quickly.

Cineplex (TSX:CGX)

Cineplex currently pays a 7% annual dividend. Management doesn't think this is too high, however, as it just approved increasing the payout to $1.80 per share on an annual basis, up from $1.74 per share.

"With respect to the dividend increase today, it's obviously a signal that you've got confidence in the business," an executive commented.

Operating more than 160 movie theatres throughout Canada, Cineplex is reliant on Canadians having enough discretionary income to indulge in entertainment. The company is also battling shifting consumer trends, such as viewing more movies at home.

Still, the business generates plenty of cash, and a new capital-expenditure program should help boost revenues per location. Management appears highly confident that these investments will help sustain and grow the dividend for years to come.

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