



## This Dividend Growth Stud Is Absurdly Cheap

### Description

I'm happy to report that there are thousands of Canadian investors who follow a dividend-growth investing strategy, which I continue to think is an easy way to [secure yourself a safe income](#) for your golden years.

The usual dividend growth investing strategy goes a little something like this: an investor picks one of 25 or so top Canadian stocks, buys the company at a decent price (because these securities never really get cheap), and holds for a few decades. It's boring, but it works.

But every once in a while, we get the opportunity to load up on a truly cheap dividend growth name. I believe investors should be aggressive when this happens and load up on as many shares as possible.

**Transcontinental Inc.** ([TSX:TCL.A](#)) is such an opportunity today. Here's why you should join me and add this stock to your portfolio.

### Temporary weakness

Transcontinental has two main businesses, with each accounting for about half of total revenues. The first, which has been the company's bread and butter for years, is its traditional printing business. This includes everything from newspapers to books to flyers you get in the mail. Transcontinental also owns certain newspaper and magazine assets, which it then prints itself.

About a year ago, the company changed significantly with the acquisition of Coveris Americas, a leading flexible packaging company. This deal increased revenue from \$2 billion in 2017 to \$2.5 billion in 2018, with 2019's top line expected to approach \$3 billion. It also showed the market once and for all that Transcontinental was willing to make a big move to diversify away from the traditional printing business.

There's just one problem: the company keeps posting crummy results from its new sexy division.

Recent results demonstrate this. While revenue was up some 50% in the first quarter, earnings per

share plunged from \$0.75 last year to \$0.32 this year, a decline of nearly 60%. Even after making certain adjustments, earnings per share were still down 22%. Ouch.

Management is saying all the right things, telling investors that the company expects earnings to slowly recover over the next few quarters. But the market is impatient, and many investors are skeptical the company can pull it off.

## A ridiculously low valuation

This situation has created a stock that looks terrible over the short-term but fantastic over the long-term.

Over the last four quarters, Transcontinental has posted free cash flow of \$2.32 per share. The stock currently trades hands at \$14.62 at writing. That puts the company at just 6.3 times free cash flow. You won't find many [cheaper stocks](#) than that.

You might be thinking earnings are about to fall off a cliff and that's why the stock is so cheap. Analysts that follow the stock would disagree with that conclusion. Transcontinental is trading at 5.9 times 2019's projected earnings.

The stock isn't just cheap on a price-to-earnings perspective, either. Shares trade at approximately 20% under their stated book value and at just 0.4 times sales. Both of these ratios are incredibly cheap.

## Dividend growth

Transcontinental has quietly become one of Canada's top dividend growth stocks. It has increased its dividend annually since 2010 and has hiked dividends 16 of the past 18 years. The only years investors missed out on their annual raise were 2002 and 2009.

The current payout is \$0.22 per share each quarter, which works out to a sparkling 6% yield. And investors don't have to worry about the security of the distribution either; the payout ratio is just 38% of free cash flow.

Some investors are concerned because the most recent dividend hike was a paltry \$0.01 per share each quarter, but the company is doing the smart thing by using excess cash flow to pay down debt. Once the balance sheet is in better shape, look for the dividend to increase smartly.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:TCL.A (Transcontinental Inc.)

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